



**THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON  
PROFITABILITY OF FIRM'S (THE CASE OF SELECTED MANUFACTURING  
COMPANIES IN NORTH SHEWA ZONE)**

**BY**

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**MAY, 2021**

**DEBRE BERHAN, ETHIOPIA**

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MANUFACTURING COMPANIES IN NORTH SHEWA ZONE)**

A THESIS SUBMITTED TO DEBRE BERHAN UNIVERSITY COLLEGE OF BUSINESS AND  
ECONOMICS DEPARTEMENT OF ACCOUNTING AND FINANCE IN PARTIAL  
FULFILMENT OF THE REQUIREMENTS FOR DEGREE OF MASTERS OF SCIENCE IN  
ACCOUNTING AND FINANCE

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### **Declaration**

I, am Mesfin Wubshet H/giworgies, hereby declare that this thesis entitled “The Impact of Corporate Social Responsibility on Profitability of Firms, The Case of Selected Manufacturing Companies in North Shewa Zone” submitted by me for the award of the Degree of Master of Science (MSC) in Accounting and Finance, Debre Berhan University, Ethiopia, is my original work and it has never been presented in any university. All sources and materials used for this thesis have been duly acknowledged.

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This Thesis has been submitted for examination with my approval as a University advisor.

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## **Acknowledgement**

I will always say thank you, the almighty GOD for having kept me alive from the very time I started this tiresome journey of education. From day one, you have never forsaken me and have held me up when my hope is lost. I can't thank you enough my Lord.

I would like to express my sincere appreciation and thank my advisor Mr. Alebachew Goshim for his invaluable knowledge, guidance, professional support and time taken to offer advice. His insight and patience played a great role to the successful completion of this thesis.

I am grateful to the staff of National Tobacco S.C, Debre berhan wood processing S.C, Rorank Business S.C, Debre Berhan Blanket Factory PLC, Dashen Brewery S.C and Debre Berhan Natural Purified Mineral Water S.C because of giving me the required data voluntarily to conduct my research. Without their kind cooperation, this study would not have been completed and became a reality.

I Would Also Like to Thank, Debre Berhan University, College of Business and Economics, Department of Accounting and Finance. For Giving Me an Opportunity by motivating me to do this thesis by selecting the title.

In the last, I would like to appreciate my colleagues, friends and family for their contribution and participation.

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## **Abbreviations**

CSR: Corporate Social Responsibility

FNG: Corporate Financial Performance

GDP: Gross Domestic Product

MFC: Manufacturing Companies

P: Profitability

EC:Economic Responsibilities

LR: Legal Responsibilities,

CEBP :Corporate Ethical Business Practice

PR:Philanthropic Responsibilities

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## ABSTRACT

*The main objective of this study was impact of corporate social responsibility (CSR) on profitability in selected manufacturing firms in north shewa zone; the study shows and suggest possible solution that contribute to increase profitability of the company. The qualitative Approach and descriptive research design has employed, where the respondents selected through purposive sampling method. To achieve this objective, the researcher used questionnaire to collected primary data. The collected data analyzed through descriptive statistical methods such as mean, standard deviation and inferential statistics such as correlation and regression with the aid of SPSS software version 20. The study used one dependent variable profitability (P), four independent variables that are economic responsibilities (ER), legal responsibilities (LR), corporate ethical business practice (CEBP) and philanthropic responsibilities (PR).The finding of the research show that corporate social responsibility has positive and significant impact on the profitability of firms. This indicate that in order to maximizing profit the company must plan and strongly implement corporate social responsibility polices with the company on going plan and strategy. The study recommends that manufacturing firms take a thorough interest in the corporate social responsibilities of their firms and try to match them with the reputation, competitive advantage they have over others whom they offer similar product. and also its important to refocus, re-plan, re-affirm to the needs of the manufacturing client, motivate the workforce, monitor and evaluate the manufacturing product output for business continuity. The study reveals that researcher encourages and motivates the prospective researchers to conduct further research corporate social responsibility with emphasis on the following areas; corporate social responsibility in improving the welfare of the community member's north Shewa as well as Ethiopian, role of government in promoting corporate social responsibility among small scale manufacturing firms, influence of ethical business values and practices on capital investment and business returns.*

**Keywords: Ethiopia, Corporate Social Responsibility, North Shewa Zone, Profitability, Manufacturing Companies.**

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the Study

The primary objective of an organization which is making and maximize their profits being socially responsible to the society because business organization do not away from society and the business should operate well to the development of society in which they work. There is much talk about corporate social responsibility that an organization should involve in philanthropic or social activates or not as CSR tells that an organization alleviate socket's problems while in contrast of CSR says that business is not to be involve in social activates they should have focused to maximize profit and merely shareholder wealth (Greenbaum &Thakor, 2007).

Corporate Social Responsibility (CSR) refers to the practice whereby corporate entities voluntarily integrate both social and environmental issues into their business decision making and operations. However, CSR in recent times implies that companies voluntarily integrate social and environmental concerns in their operations and interaction with stakeholders. However, some arguments suggest that CSR is just a reminder that the quest for profit should be considered alongside social and environmental considerations (Manuel & Lúcia, 2007). Branco and Rodrigues (2008) hold the view that CSR is analyzed as a source of competitive advantage and not an end in itself.

In effect, the concept of CSR has evolved from being regarded as detrimental to a company's profitability, to being considered as somehow benefiting the company as a whole, at least in the long run. Corporate managers have found a need that the environment in which they operate should be catered for because their intermediate and macro environments have a direct impact on the attainment of their corporate goals, objectives and mission statements. Therefore, the purpose of profit-making organizations is to maximize profit through optimal utilization of available resources. It is important to note that profitability is an important factor to companies, because it is one of the major purposes for which companies are established. In the emerging global economy, where the Internet, the news media and the information revolution shed light on business practices around the world, companies are now frequently assessed on the basis of their environmental stewardship in addition to their ability to make profit (Branco and Rodrigues, 2008).

Mazurkiewicz (2004) recognizes that the concept of CSR has been developing since the early 1970s. Therefore, there is no single, commonly accepted definition of CSR. There are different perceptions of the concept among stakeholders. The CSR Practice of manufacturing industries focusing on environmental issues need the involvement of an environmental management (Post et al. :2011). For a manufacturing company whose activities require the involvement of wider community whether as provider of raw materials labor and target markets CSR is needed is an ethical and moral obligation of the company. Activities of the manufacturing company are seen to have been actively contributing to the pollution of air and water as well as environmental damage and disruption. At this point, green innovation can enhance the value of products made by a firm, reduce the environmental costs, and eventually lead to a better firm performance.

Alhadid and As'ad (2014), Chen et al. (2006), and Weng et al. (2015) explained that green innovation can improve the performance of firms that are pursuing CSR strategy. Companies are assumed to be socially responsible because they anticipate a benefit from their actions. Examples of such benefits might include reputation enhancement, the ability to charge a premium price for its outputs, or the use of CSR to recruit and retain high quality workers. These benefits are presumed to offset the costs associated with CSR, since resources must be allocated to allow the firm to achieve CSR status, while a key indicator to determine the true worth and value of modern organizations is their ability to give back to the society part of their income through some mutually beneficial initiatives (Nkanbra & Okorite, 2007).

There is no doubt that CSR is becoming indispensable, though involuntary, in the contemporary business world as societal needs are making it imperative for the corporate organizations to be sensitive to happenings in their environment, which ensure more understanding and good relationship between the organization and the society they exist, since CSR contributes to the wellbeing of the citizenry (Obaloha, 2008). CSR is one of the most dynamic, complex and challenging areas that business leaders face (Gwynne, 2009). It is arguably one of the most critical issues in business-society relationship thus bringing public interest companies under pressure to take active role in making the society a better place to live in.

Profitability is the state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio. A profit means the returns on an investment after all charges have been paid often used in plural; an amount received from a commodity or service in excess of the original

cost. Profitability is measured with income and expenses Finch (2007). Profitability is the primary goal of all business ventures. Without profitability the business was not survive in the long run. So measuring current and past profitability and projecting future profitability is the most important aspect for it to survive. Wegnand, et al (2003), gives a more realistic definition that “a profit is the positive amounts you are left with when your total income exceeds the total expenses”

On the other hand, Schenk (2007) asserts that the economic definition of profits is the difference between revenue and the opportunity cost of all resources used to produce the items put to the market.

Don Hofstrand (2013) argue that Profitability is measured with an “income statement”. This is essentially a listing of income and expenses during a period of time (usually a year) for the entire business. Information File Your Net Worth Statement includes - a simple income statement analysis. An Income Statement is traditionally used to measure profitability of the business for the past accounting period. However, a “pro forma income statement” measures projected profitability of the business for the upcoming accounting period. A budget may be used when you want to project profitability for a particular project or a portion of a business.

As defined by Primeaux (1997) profit is the end result of subtracting total costs (TC) from total revenues (TR). Therefore, profit maximization is producing the right quantity of goods and services given the right amount of resources (Primeaux, 1997). Profit maximization can be defined from a behavioral perspective as producing the right quantity and quality of goods and services the consumers want within the legal and ethical norms of the society (Primeaux & Stieber, 1994). Failing to account for the ethical effects of decisions can bring about negative consequences that signify opportunity costs for the society and consumers, hence, managers who fail in taking into account ethical aspects of their decisions are not profit maximizing due to the costs incurred as a result of overlooking ethical dimensions of the decision (Primeaux, 1997; Primeaux & Stieber, 1994).

It is the primary goal of all businesses. Without profitability the business was not survive in profitability is the final measure of economic success achieved by a firm in relation to the capital invested in it. This economic success is determined by the magnitude of the net profit (Pimentel, Braga & Casa Nova, 2015). To achieve an appropriate return over the amount of risk accepted by the shareholders, is the main objective of firms operating in capitalist economies. After all, profit is the propulsive element of any investments in different projects.

Proponents suggest that companies can increase long-term profit by operating with a CSR perspective, while critics argue that CSR distracts business from economic consideration. With the growing importance of CSR today world, some governments or international associations have set guidelines to listed companies on reporting CSR initiatives. This study concentrates on examining CSR practices of manufacturing companies because CSR activities involves doing good to different stakeholders, not just shareholders, which is some more comprehensive strategies in company.

## **1.2. Statement of the Problem**

Despite the prevalence of a large body of literature concerning corporate social responsibility, much of the research done in this area has gaps. (Abbott and Monsen,1979: 501). Arlow and Gannon (1982) in their review of the relationship between profitability and corporate social responsibility highlighted the need for much more literature as they observed that all various studies relied upon questionable indexes of social responsibility. There exist a large number of manufacturing firms in Ethiopia but their growth has not been steady fast and the communities where they operate have not shown any sign of changing. This reveals that either the manufacturing firms or the communities have not supported one another.

This goes down to the firms' profits that would help them give a hand to solve these social issues or even some of them lack information on what impact corporate social responsibility can have on their profits. Even when some of them may be socially responsible to their communities, there is no evidence that it has a positive impact on their profits. The limited profitability can be manifested by the limited expansion of manufacturing companies, downsizing of the workforce, poor and low salary payments to workers or even the salary arrears. It became of a much consorted effort for a new research to be instituted to generate data that was help these organizations to be socially responsible to their clients and business stake holders.

On the other hand, the empirical studies on Corporate social responsibility and profitability link have never been in agreement, as some studies find negative correlation, some find positive correlation, while others find no correlation at all. Hence, Waddock and Graves (2007) indicate that this theory was based on the assumption of negative correlation between CSR and profitability. Some other studies suggest that CSR is not related to profitability at all. Ullmann (2015) points



out that there is no reason to anticipate the existence of any relationship between CSR and profitability, as there are many variables in between the two.

North Shewa zone has a large number of manufacturing companies like National Tobacco S.C, Debre berhan wood processing S.C, Rorank Business S.C, Debre Berhan Blanket Factory PLC, Dashen Brewery S.C and Debre Berhan Natural Purified Mineral Water S.C. was have selected by using purposive sampling technique considering the companies length of time established, seniority of the companies and known by the community and also the desired population for the study is rare or very difficult to locate and recruit for a study, purposive sampling may be the only option. According to this development has not flourished with illiteracy rates still very high, the sanitation around towns being poor, the unemployment rates being high among the youth and the level of household income generating activities being very low

Arising from the lack of consensus on the findings of the previous empirical studies on the impact of CSR on the profitability of corporate enterprises and the fact that none of these studies comprehensively modeled all the selected manufacturing companies in north Shewa zone; there is a gap in the academic literature that needed to be filled. It is within this context that this study examines the impact of CSR on the profitability of selected manufacturing companies in north Shewa zone. Consistent with literature, this study expects that in the long run CSR was have positive impact on the profitability of the firm It's from this background that the study seeks to fill the gap by providing a full of information about the impact of corporate social responsibility on profitability of firms by correlating the two variables.

### **1.3. Objective of the Study**

The objectives of this research achieving was be classified under two sections; the first section states the general objective addresses and second section shows specific objectives that the researcher developing for achieving the general objective.

#### **1.3.1. General Objective of the Study**

The general objective of this study was to examine the impact of corporate social responsibility on profitability of firms, the case of selected manufacturing companies in north Shewa zone.

### **1.3.2. Specific Objective**

1. To establish the level of corporate social responsibility on business profitability of manufacturing companies in north Shewa zone.
2. To examine the role of corporate ethical business practices on profitability of manufacturing companies in north Shewa zone.
3. To find out how the corporate legal and economic responsibility of manufacturing companies translates into profits.
4. To examine the relevance of the philanthropic responsibilities of a manufacturing companies to its profits.

### **1.4. Research Question**

1. What do you consider to be the level of corporate social responsibility implemented by manufacturing companies to influence firm's profitability?
2. Is there any relationship between corporate ethical business practices and profitability of manufacturing firms?
3. How does the corporate legal and economic responsibility of manufacturing companies translate into profits?
4. Do you think there is any relevance between the philanthropic responsibilities of manufacturing companies to its profits?

### **1.5. Significance of the Study**

This research paper was deemed to benefit different stakeholders in different ways as stated in the following ways. The study was expecting to make contributions to knowledge in a number of ways. The outcome of this research was provide information about CSR in relation to corporate institutions especially the selected manufacturing companies in north Shewa zone. It is also expected that the results of this study was produce relevant material for scholarly discourse in management science relating to corporate social responsibility and profitability. Another benefit is that in a truly global economy, manufacturing companies in north Shewa zone was be more responsible and become citizens. Companies will more easily and willingly respond to the social needs of the societies where they operate.

The findings generated in this study was useful in testing the existing theories under extreme conditions not present in developed economies where most of the prior studies were carried out.

Current and potential investors are supplied with information to help them make good investment decisions. The findings and conclusion may enable the regulators to know the nature of demand placed on manufacturing companies in north Shewa zone and ways companies have responded to them. The work is important to the government, host communities and non-governmental organizations involved in development programs. This study fills literature gaps by investigating the impact of CSR on profitability of manufacturing companies.

### **1.6. Scope of the Study**

The scope of a study is explaining the extent to which the research area was explored in the work and specifies the parameters within the study was operating. Basically, this means that the researcher was to define what the study is going to cover and what it is focusing on. Similarly, the researcher also has to define what the study is not going to cover.

In order to achieve the objective, the researcher was used descriptive and explanatory research design. The study was better if it covered the manufacturing companies located in North Shewa zone location which is National Tobacco S.C, Debre berhan wood processing S.C, Rorank Business S.C, Debre Berhan Blanket Factory PLC, Dashen Brewery S.C and Debre Berhan Natural Purified Mineral Water S.C. The respondent of the study was covering the company's director, managers and supervisor. In addition, the study was not assessing the impact of other element of corporate social responsibility apart from impact of corporate social responsibility. Dependent variable of this study was be delimited to profitability whereas the independent variable delimited to economic impact of corporate social responsibility, legal impact of corporate social responsibility, corporate ethical business practice impact of corporate social responsibility, philanthropic impact of corporate social responsibility.

### **1.7. Limitation of the Study**

The study may affect by other element of corporate social responsibility variable of manufacturing firms; however, the independent variables that the researcher selected to conduct the study were limited to economic responsibility, legal responsibility, corporate ethical business practice responsibility, and philanthropic responsibility and their impact on profitability of firms; as reviewed in the literature they are the most influential variable.

The generalize ability of the study was have limited due to other variables impact of corporate social responsibility on manufacturing firms profit and limitation of data on the other profit

elements. Moreover, the sample was be limit to North shewa Zone Manufacturing companies so that the generalize ability for the other zone may be limited. In addition, some of the selected respondent was not voluntary to fill the distributed questionnaire on time.

### **1.8. Organization of the Thesis**

This thesis proposal comprises of four chapters. Chapter one is the introduction which contains the Background, problem statement, general and specific objectives, research questions, significance of the study, the scope of the study, limitation of the study and the organization of the thesis.

Chapter two presents the conceptual perspective, the theoretic review of the literature, the empirical literature aligned to the study, related studies and the conclusions drawn from the literature.

Chapter three was contains the Research design, Study Population, sample size, Sampling procedure, research instruments, Validity and reliability of the research instruments, data collection and analysis methods.

Chapter four of this study contains the presentation of findings, interpretations in form of tables, figures and charts. It also has the narrative explanations and correlations of the results and the data generated.

Chapter five of this research thesis has the lessons learnt, conclusions and recommendations on the data generated about corporate social responsibility and profitability of manufacturing firms thus gives a general picture about the manufacturing social responsibility in selected Manufacturing companies in North Shewa zone .

## CHAPTER TWO

### 2. REVIEW OF LITERATURE

#### 2.1. Theoretical Review

The two views of corporate social responsibility are the classical view and the socioeconomic view (Robbins & Coulter, 2007).

#### 2.2. Introduction

This chapter informs both the theoretical and empirical foundation upon which the ideas and opinions developed in its study were constructed and discusses the variables that influence the profitability of manufacturing companies' Amhara region in north shewa zone. This chapter focuses on a review of relevant literature in relation to the underlying concepts and theory for the study as well as the development of conceptual framework for the study.

#### 2.3. Corporate Social Responsibility

A key indicator to determine the true worth and value of modern organizations is their ability to give back to the society part of their income through some mutually beneficial initiatives otherwise often referred to as corporate social responsibility (Nkanbra & Okorite, 2007). The concept of CSR as a social obligation was first advocated by Carroll (1979). Carroll (1979) CSR pyramid is one of the best-known CSR concept which covers economic, legal, ethical and philanthropic expectations that a society has in relation to a company.

According to Rendtorff and Mattson (2012), companies are perceived as human communities that use social practices in order to achieve common goals. These objectives are realized through bond of trust and authentic relationships with customers. The most important ethical principles that promote good life of customers are customer 's autonomy, dignity, honesty, customer 's vulnerability that represents basic presumption for decent access to customers.

Robin (2008) states that society would like to have an economic system that creates opportunities for the growth of economic welfare and a happy life of people. The mission of ethics is to minimize the abuse of companies 'power in the bilateral exchange relations and to reduce a negative impact on a people 's daily live. A fundamental issue of business ethics is how to make capitalism more

ethical. According to Sigurthorsson (2012), risk of CSR consists in the fact that it tends to become an excuse for soft law and corporate self-regulation.

CSR models present company's social obligations as comprising economic, legal, ethical and philanthropic responsibilities. Carroll (1991) notes that businesses were created as economic entities driven by a profit motive, thus economic performance undergirds the other three CSR components. Legal responsibility involves businesses complying with federal, state and local government laws and regulations (Carroll, 1991). This was followed by ethical responsibilities, those standards, norms and expectations that reflect a concern for what consumers, employees, shareholders and the community regard as fair, just and respectful of stakeholders 'moral rights (Carroll, 1991). Finally, philanthropic responsibility was the expectation that businesses be good corporate citizens, actively engaging in programs to promote human welfare and goodwill's (Carroll, 1991). A considerable amount of research effort has been directed towards identifying the positive impact of CSR initiatives on customers.

CSR is part of the business ethics which accountants and management are concerned with because the interested in the factors that facts the profitability of the business. CSR can be defined as the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll & Buchholtz, 2003). CSR is a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based. CSR is a means of discussing the extent of any obligations a business has to its immediate society; a way of proposing policy ideas on how those obligations can be met; as well as a tool by which the benefits to a business for meeting those obligations can be identified (CSR Guide).

Mc Williams and Siegel (2001) define CSR as actions that appear to further some social good, beyond the interests of the firm and that which is required by law. The concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A traditional view of the firm suggests that its primary, if not sole, responsibility is to its owners, or stockholders. However, CSR requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituencies as well, including employees, suppliers, customers, the local community, local, state, and federal governments, environmental

groups, and other special interest groups. Collectively, the various groups affected by the actions of an organization are called stakeholders. Further, CSR challenges businesses to attend to, and interact with, the firms 'stakeholders while they pursue economic goals. Consequently, CSR is frequently linked to such constructs as business ethics, corporate citizenship, stakeholder engagement, sustainable development, corporate governance, sustainable finance and social responsible investment (Amaeshi & Adi, 2007).

Matten and Moon (2004) underline the centrality of the ethical and philanthropically areas of responsibility to the study of CSR because of the differentiation they allow to establish between voluntary corporate behavior and mere compliance. The CSR debate has focused on the moral and philanthropic responsibilities, giving little attention to economic and legal responsibilities.

Schwartz and Carroll (2008) develop a three-domain approach, in which they propose the assumption of the philanthropic or discretionary component under the ethical and/or economic components. The reasons for such proposal are related, on the one hand, to the difficulty in distinguishing between philanthropic and ethical activities on both the theoretical and practical levels, and, on the other hand, to the observation that philanthropic activities are often explained by underlying economic interests.

According to Adeyanju (2012), economic responsibility is the bed rock of all responsibilities and the foundation of all CSR, which if not achieved other responsibility was not be attained. This responsibility emphasizes the reason for business establishment. Adeyanju (2012) says that the company is to comply with established laws by government. The law reflects a view of codified ethics that embody basics notion of fairness established by the government. Such laws include payment of taxes, environmental protection and other. Ethical responsibility emphasizes the activities and practices expected by the society members, which includes complying with the norms in areas which they operate (Adeyanju, 2012).

Nickels, Williams and Nim (2002) suggest that CSR has several dimensions:

1. Corporate philanthropy: This is the dimension of CSR that includes charitable donations.
2. Corporate Responsibility: Dimension of social responsibility that includes everything from hiring minority workers to making safe products.
3. Corporate Policy: This refers to the position a firm takes on social, politics and political issues.

According to Friedman (2006), there is one and only one social responsibility of business- to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. Friedman's statement that a business's social responsibility lies in making profit has shown a controversial point of view in modern business. Some people believe in Friedman's ideas while others do not. Is it possible that Friedman can be both right and wrong? In business, there are different situations that require different perspectives and methods of approach. On one hand, it is correct to say that the main focus of a business should be to make profit. Without profit, a business cannot survive. In a way, Friedman's theory does promote social responsibility to society. The increase of profits in a company benefits the economy which benefits the citizens of that economy. Friedman believed that social responsibility should not be forced by the government. While most economists agree with this notion, many believe that he may have gone to an extreme by saying that it is the company's only social responsibility. Companies can still maintain their successful path while pursuing several different methods of social responsibility simultaneously. Responsibility to stakeholders can still be achieved while helping to strengthen the community. For example, companies can conduct research to provide a safer product to consumers.

According to Paula (2009), Friedman's perspectives represent the most famous and frequently cited opposition to Corporate Social Responsibility. He went further to say that Friedman opposition is termed the "economic" argument against CSR, who has argued that the primary responsibility of business is to make a profit for its owners, albeit while complying with the law.

Sainthouse (2009) says that the "competitive" argument recognizes the fact that addressing social issues comes at a cost to business. To the extent that businesses internalize the costs of socially responsible actions, they hurt their competitive position relative to other businesses.

There are several arguments in favors of corporate social responsibility. One view held by critics of the corporate world, is that since large firms create many social problems, they should attempt to address and solve them (Robbins & Colter, 2007). They went further to suggest that firms can do a better job of producing quality, safe products, and in conducting their operations in an open and honest manner. Robbins and Colter (2007) also says that the "self-interest" argument that suggests firms should conduct themselves in such a way in the present as to assure themselves of a favorable operating environment in the future. In this theory of the firm-based model, managers



conduct a cost/benefit analysis to determine the level of resources to devote to CSR activities/attributes. Simply put, firms simultaneously assess the demand for CSR and the cost of satisfying this demand and then determine the optimal level of CSR to provide. Robbins and Colter (2007) explain that some suggestions that businesses should assume social responsibilities because they are among the few private entities that have the resources to do so. The corporate world has some of the brightest minds in the world, and it possesses tremendous financial resources.

#### **2.4. The Concept of (CSR) as an Organizational Phenomenon**

The concept of Corporate Social Responsibility (CSR) was derived from the perception of social responsibility. Organizations consider their very existence an opportunity to contribute to the wellbeing of society and as such their mode of operation and behavior would restructure to conform to the share norms and values of society. Corporate Social Responsibility (CSR) was which then termed as the social responsibility of businessmen in the 1950s described as an organizational phenomenon where businessmen carry out policies, actions and make decisions which would in good tastes or conform to societal objectives and values.

Social responsibility not a universal remedy for societal problems but that it serves as a legitimate foundation and guideline for future business activities. In the 1950s, much emphasis placed on the doctrine of social responsibility to the neglect of the challenges it shams to organizations and stakeholders in their attempts to implement or act in a socially responsible way (Bowen, 1953). The concept of social responsibility though deeply roots in societal norms and values to modernize and inculcates into the managerial settings of organizations as managers make decisions relate to social responsibility so far as it result in the long term economic gain of their organizations. These economic gains in the form of profit maximization serve as a reward to organizations for socially responsible.

There was a strong bond between socially responsible and doing business all over the world. For businessmen to be able to exercise social power or gain economic benefits, their implementation of social responsibility activities would strongly link with the kind of benefits or social power they derive (Davis, 1960). According to Davis for Economic Development the existence of business organizations hypothesizes in their interest to satisfy the needs of society through Corporate Social Responsibility in the areas of job creation, economic growth and environmental conservation.

## **2.5. Concept of Profitability**

Profitability is considered as one of the most important studied indicators of the strategic value of CSR (Ortlitzki, Schmidt, & Rynes, 2003). Researchers have started the empirical study of CSR and profitability several decades ago in western countries. Many firms have been faced with increasing pressure for corporate accountability from their stakeholders (managers, employees, customer, government, shareholders, and so on) (Waddock, 2004).

This pressure includes aspects such as legal, social, moral, and financial aspects. Profitability in this context implies financial performance. However, result of existing researches on CSR and its relationship with financial performance, are inconclusive. Results of some studies showed a positive relationship between CSR and profitability, on the other hand some concluded that a negative relationship exists while some gave a non-significant relationship.

## **2.6. Impact of CSR on Organizational Profitability**

Kolstad (2007) has shown in his paper that the relationship between CSR and profit are a controversial issue. Kramer and Porter (2006) added that corporations can think of CSR as a constraint or an additional cost, although it may be an opportunity for them to innovate and gain a competitive advantage. Friedman (as cited by Foote, Gaffney and Evans, 2010) was criticizing the money spend on CSR stating that the major responsibility of the managers is to maximize the profit of the organization as they contracted with the owners of the firm.

ArinEœo, Canela and Garcia-Castro (2010) mentioned that CSR is not always providing a positive impact on the financial performance; some cases showed that it could have a negative impact as well. While McWasiums and Siegel (2000) added that a lot of empirical studies, showed that CSR and profitability can be engaged in a positive, negative or even neutral relationship. kolstad (2007) stated that CSR can be seen as a way to reach the final goal of the organization which is increasing the shareholder returns but can't be considered as a goal itself. Companies should balance scarifying some financial profit and between satisfying its stakeholders at least on the short term. (ArinEœo, Canela & Garcia-Castro, 2010). Kolstad (2007) added that executives used to care only about the profits and the benefits of the shareholders, while nowadays companies may have to widen their goals to include the CSR.

Friedman (as cited in Kolstad, 2007) presented the idea that maximizing the profit is the only essential moral aspect that can be offered by the executive to the corporation and that idea was

supported by four arguments. First, he mentioned that managers should follow the interest of the shareholders according to the legal contract they have. Second It will be illegal for managers not to follow the interest of the shareholders since this was be considered as taxation to the shareholders. (Kolstad, 2007).

Third, he advised the corporations to focus more on its core operations to be more efficient. Fourth, since not all the corporations are engaged on CSR, then CSR can be an added cost to corporations that cares about society leading to unfair competition between companies Friedman (as cited in Kolstad, 2007). Kolstad (2007) strongly criticized the overstated idea presented by Friedman, saying that responsibility of business should be seen in a wider view and should take in consideration other agents and shouldn't only consider the shareholders' interest and that the provided idea was need more examination and analysis.

While Peloza (2006) mentioned that due to many criticisms of CSR by whom, managers tried to ensure that CSR was deliver a financial income to the firm by developing different strategic forms for CSR. While Demacarty (2009) pointed out that the CSR doesn't necessarily provide a stronger financial return nor does it produce weaker return, it depends on the techniques that are used to increase the financial.

### **2.6.1. The Classical View**

This view says that management 's only social responsibility is to maximize profit. The most outspoken advocate of this approach is economist, Milton Friedman (1962 and 1970). He argues that managers 'primary responsibility is to operate the business in the best interest of the stockholders. Friedman commented that stockholders have single concern: Financial return. He also argues that anytime managers decide to spend the organization resources for "social good" they are adding to the cost of doing business. These costs have to be passed on to consumers either through higher prices or be absorbed by stockholders through a smaller profit return as dividends.

### **2.6.2. The Socioeconomic View**

Robbins and Coulter (2007) further explains that the socioeconomic view is of the view that management 's social responsibility goes beyond making profit to include protecting and improving social 's welfare of its stakeholders and the environment that the firm carry out its operations. This position is based on the belief that firms are not independent entities responsible

only to stockholders. They also have the responsibility to the society that allow their formation through various laws and regulations and support them through purchasing their products and services. One of the major advocates of this view is Archie Carroll (Zain, 2008).

Carroll and Friedman agree on the maximization of firms' values as a core responsibility. They also advocate that such responsibility remains in-line with legal standards and therefore firms are not to engage in illegal activities. Carroll takes a firm's responsibilities further by talking about social responsibility. Under social responsibility, he outlines ethical and discretionary responsibilities. These are affectionately known as the "Should-Do's" and "Might-Do's" respectively (Zain, 2008).

Zain (2008) went further to explain that, Carroll foresees the importance of ethical standards as part of a firm's success in the long-run. By following beliefs of certain moral standards and pro-actively volunteering to search for charitable avenues, the social responsibility dimension was creating a positive rapport between the firm and parties that are privy to its operations; this includes suppliers, clientele, employees and the surrounding community.

### **2.6.3. Theory of Maximized Profits for Shareholders**

According to Wiedmann (2008), the conventional theory of CSR believes that companies, as a business setup, should take optimal profit making for shareholders as their most fundamental objective. The realization of the benefits of any other concerned interest parties who are under the influence of the company's behaviors should not be deemed as the corporate objective. And the management body of the company shall have the right to resort to any means to achieve the goal when making any decisions or taking any actions on behalf of the company.

### **2.6.4. Stakeholders Theory**

According to Griffin and Mahon (1997), stakeholders theory maintains that maximizing the interests of the shareholders of the company is the most important objective that a business organization should achieve. However, it should not be considered as the sole objective. As a business organization, a company is vitally interrelated with the overall social environment. When in business activities, a company should not only consider on the influence that the activities may have on shareholders, but also on the influence that they was have on the interests of the parties other than the shareholders, including employees, suppliers, customers, creditors and on the benefits of the government. When a company makes any decision, it has to take into account the

benefits of these people. Otherwise, it should take liabilities against any harm or damages thus incurred to these people.

### **2.6.5. Good Corporate Citizens Theory**

According to Carroll (1991), this theory maintains that companies, as business organizations, should take profit making as the corporate objectives. However, companies are also liable to offering help, i.e. companies shall have the obligation to help solve certain social problems. For instance, companies shall have the obligation of making donations to education or charity organizations.

### **2.6.6. Minimum Requirement of Morality Theory**

The minimum requirement of morality theory according to Ojo (2010) believes that companies have the obligation to satisfying shareholders 'interests rather than causing damages to other parties. By this theory, as long as companies have avoided causing or corrected the social harm caused due to their behavior during the process of business activities, the companies are deemed to have fulfilled their social responsibilities. The CSR theory of minimum requirement of morality is regarded by some scholars as conservative idealism, or in other words as the voluntary compliance with the law.

### **2.6.7. Theories of Corporate Social Disclosure**

If theories of conventional accounting disclosures revolve around the need of decision makers for information on which to base their choices, then they seem unlikely to explain this, largely voluntary, activity (Gray, Owen & Maunders, 1987). Although Toms (2002) does suggest that environmental disclosure might serve as a conduit for signaling facts about environmental management and this might explain why some companies might adopt such a strategy, theories which explain the increase in social disclosures, which include more than just environmental management issues, and the interest in social reporting generally, are likely to rest elsewhere. In their 1987 paper, Gray, Owen and Maunders review theories that might explain the phenomena, and argue that it is more likely that social and political theory studies will shed light on the practice. They go on to discuss in detail three sets of theories: theories of the stakeholder, theories of legitimacy, and theories of political economy.

### **2.6.8. Social Accounting and General Systems Theory**

Social reporting, at a theoretical level, is concerned with how commercial activity links into other social systems, and presents an alternative ontological approach to how one views the role of corporations. Indeed, understanding systems thinking is important in understanding the meta-theoretical assumptions of social and environmental accounting. In short, as explained by Gray, Owen & Maunders (1987), it is an approach designed to reverse the tendency in scientific thought towards reductionist reasoning. Systems theory has its origins in the natural sciences and is explained in the following terms: an attempt to study a part without understanding the whole from which the part comes (reductionism) was bound to lead to misunderstandings. The part can only be understood in its context; understanding tends to be directed by and limited to one 's own discipline. Natural phenomena are complex and cannot be successfully studied by artificially bounded modes of thought (Gray, Owen & Maunders, 1987). The essence of systems thinking therefore demands that we think about all our commercial (and leisure) activities in the context of how they affect other life systems.

### **2.6.9. Legitimacy Theory**

Other reasons for companies choosing to disclose information relate to issues of legitimacy. In the same way that it was suggested that companies require the support of stakeholders to survive, legitimacy theory in the words of Ojo (2010) implies that a corporation 's activities must be legitimate in the eyes of society to allow it to continue; in the doomsday scenario, if the company loses its legitimacy, then it was cease to exist. This notion may well have seemed somewhat theoretical, in itself, prior to the Enron scandal, but applied to Arthur Andersen, it can be seen to have some basis. It is not difficult to argue that, as the accounting irregularities became apparent, so the business world turned its back on Andersen, and its legitimacy was compromised to such an extent that it could not continue, and folded in a spectacularly short time.

This theory suggests that company disclosures may be a reaction to the perception that companies have of how they are viewed by different stakeholder groups within society. The theory itself is based on the notion that companies have an implicit approval from society to allow them to operate, in return for performing actions beneficial to society. The position this theory takes in relation to company disclosures is outlined by Lindblom (1993), who suggests that companies might adopt one of four strategies in an effort to keep society informed and sympathetic to the companies aims. She outlines these approaches in what might be seen as strategies of escalating

manipulative persuasion, i.e. that company activity might not alter, but that the message it wishes to convey is designed to fulfill one or more of these strategies. She suggests that, while the information disclosed may be the same, the purpose behind the disclosure may have four distinctly different purposes.

#### **2.6.10. Political economy theories**

Broadly speaking, political economy theories of accounting, within which stakeholder and legitimacy theories also lie, consist of theories which derive from the social, political and organizational context within which accounting operates. However, political economy theories have two strands. Firstly, those that are constructed through the utilitarian lens of J. S Mill and which tend to focus on the interaction of competing groups within society, which itself is viewed as pluralistic. This is regarded as the bourgeois viewpoint, where the issues under examination are not regarded by Marxists as of significant importance where the important issues (for them) are largely ignored.

Fundamentally, this view ignores the very focus of the classical Marxian analysis, which sees inherent conflict within society and which challenges the inbuilt structural inequalities of power and influence (Cooper & Sherer, 1984, Gray, Owen & Maunders, 1987). These issues of structural inequality are also the focus of critical accounting researchers who see accounting as an essential part of the structure of capitalism which serves to maintain the unjust and structurally divisive status quo (Tinker, 1984, 1985, Hines, 1991, Hines, 1992, Tinker, 1991).

Critical accounting researchers are interested in a different ideology surrounding the possibilities and responsibilities accounting has in a societal context, which Marxian and critical theorists believe go far beyond those which inhabit the domain of the mainstream researcher. Indeed, insofar as the rudiments of ideology for Marx were founded firstly, on idealism (where it is contrasted with materialism), and secondly on the structural inequality of power and resources within society, so common ground is explored by critical researchers in accounting. It should also be acknowledged that social and environmental accounting researchers stand accused by those on the critical left of being part of a project which is, itself, bourgeois (Puxty, 1986, Tinker et al., 1991), despite their own criticisms of mainstream accounting research.

### **2.6.11. Rationality Theory of Corporate Social Responsibility**

CSR is an important business strategy because, wherever possible, consumers want to buy products from companies they trust; suppliers want to form business partnerships with companies they can rely on; employees want to work for companies they respect; and NGOs, increasingly, want to work together with companies seeking feasible solutions and innovations in areas of common concern. Satisfying each of these stakeholder groups allows companies to maximize their commitment to another important stakeholder group—their investors, who benefit most when the needs of these other stakeholder groups are being met.

The businesses most likely to succeed in the globalized world was be those best able to combine the often conflicting interests of its multiple stakeholders, and incorporate a wider spectrum of opinions and values within the decision-making process and objectives of the organization. Lifestyle brand firms, in particular, need to live the ideals they convey to their consumers: The 21st century will be the century of the social sector organization. The more economy, money, and information become global, the more community was matter, Drucker (1999)

Given the aforementioned theories, this study will be guided by the good corporate citizen theory which maintains that companies, as business organizations, should take profit making as the corporate objectives. However, companies are also liable to offering help, i.e. companies shall have the obligation to help solve certain social problems. For instance, companies shall have the obligation of making donations to education or charity organizations.

### **2.7. CSR Practice in Developing Countries**

Literatures reveal that the idea of social responsibility emerged in advanced countries. Now day's firms and other actors in developing countries as well are working to promote responsible investment and work together on various societal problems. Carol (1991) developed a pyramid to explain four dimensions in which a firm is supposed to shoulder its responsibilities to various interest groups. This model explains also why firms need to adopt a socially responsible practice in a developing country context. These dimensions are economic, legal, social and philanthropic responsibilities respectively in terms of vitality. This model of CSR has been tested and supported by the findings (Carroll & Hatfield, 1985) but mostly in American context (Visser, 2006) which makes it difficult to adapt to developing countries as it is.



The developing countries CSR pyramid was developed by Visser (2006) to contextualize the concept. He extended Carroll's pyramid to the African context and argued that the order of importance of the four dimensions differs. This is associated with the economic and social challenges to the society and governance gaps in Africa. Countries in Africa look for more investment to create jobs, offer better social services in health and education. As a result, economic responsibilities are still valued as most important, while philanthropic responsibilities are emphasized as second with legal and ethical responsibilities third and fourth respectively. Hence, it helps to explain which component is focused in learning towards responsible business in practice..

## **2.8. Empirical Review**

### **2.8.1. The level of corporate social responsibility in the manufacturing firms**

In 2011, Harvard Business School Professor Michael Porter – the king of business gurus put forward a radical proposition to global corporations that; “Businesses must reconnect company success with social progress,” he wrote in the Harvard Business Review. “Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center.” He continued to assert that; “We believe that it can give rise to the next major transformation of business thinking,” he boldly pronounced. Though Porter's idea of “shared value” was warmly embraced by the heads of some of the world's largest corporations – all of which have active corporate social responsibility and sustainability programs – not everyone was convinced.

What cuts across a number of definitions that scholars have proposed on the concept of corporate social responsibility is the general belief that, beyond the quest to maximize corporate profits, corporate organizations play a crucial role in solving society's problems.

For Matten and Moon (2004), the fundamental idea of corporate social responsibility is that “it reflects both the social imperatives and the social consequences of business success, and that responsibility accordingly falls upon the corporation, but the precise manifestation and direction of the responsibility lies at the discretion of the corporation.” Such a characterization of corporate social responsibility makes it a mandatory exercise in that it assumes that business has a direct responsibility to help in solving society's problems.

Here the argument is that, though the modalities of implementing corporate social responsibility program are at the discretion of corporate organizations, it does not make corporate social responsibility a freely chosen program to contribute towards social prosperity. Therefore, for Aristotle and subsequent proponents of the broader view of corporate social responsibility such as Davis (1983), the widely held narrow view of corporate social responsibility that business is primarily concerned with profit making and maximization than social concern is unrealistic.

For Davis, corporate organizations ought to have responsibilities beyond simply enhancing their profits because they enjoy greater social and economic power in any society. The apparent conflict between corporate social responsibility and firm objectives was noticed quite early by the Nobel laureate Milton Friedman, who had declared that any effort to use corporate resources for purely altruistic purposes would constitute socialism. For the new generation of corporate leaders, optimization of profits is the key, rather than the maximization of profit. Hence there is a shift from accountability to shareholders to accountability to stakeholders (including employees, consumers and affected communities). There is a growing realization that long-term business success can only be achieved by companies that recognize that the economy is an "open subsystem of the earth's ecosystem, which is finite, non-growing and materially closed". (Herman E Daily in 'Sustainable Growth? No thank you' in *The Case of the Global Economy*, (Eds.) Jerry et al, 1996) Corporate social responsibility poses several challenges for enterprises, including the need to define their responsibilities with respect to those of the public sector, determine the extent of their obligations in the supply chain and decide until what point in the future they should anticipate and plan for the consequences of their activities, especially in the case of natural resource use. Pragmatism in corporate social responsibility is essential because despite the many issues it can address, corporate social responsibility also has its limits and cannot substitute for the role of government in enforcing laws and international labor standards.

Micheal Porter (2013) also adds his frustration on CRS claiming that businesses, through their strategic thinking and value creation, was be critical to economic progress in the coming years. Speaking via video conference at the second Porter Prize awards organized by the Institute for Competitiveness (IFC), an affiliate of the Institute of Strategy and Competitiveness at Harvard Business School in October 2013, Porter revealed that Mandatory CSR activities may not create an impact as businesses may just look at allocating money for such activities rather than seeking optimal ways for addressing social issues.

He pointed out that the most powerful way a business can have an impact on society is with a business model in which social issues like nutrition and poverty can be addressed and societal needs met while creating profit, he said. “That’s the only way to create impact. Meeting the needs and meeting those needs at a profit is crucial”, he said. Porter noted that Businesses are facing increasing pressure to play a role in solving India’s societal problems companies are being made to donate for social causes, but there is no evidence that it is even creating any difference.

Nowadays, many large multinational corporations which occupy increasing shares in the market and high statuses in the society are usually powerful in having both positive and negative effects on the public to a great extent. As a consequence, today, the concept of Corporate Social Responsibilities (CSR) draws much more public attention. Social responsibility goes beyond profit making and social obligation. CSR is a business intention focusing on minimizing the harmful effects and maximizing the benefit for the society (Mohr, Harris, e tal 2001, p. 47).

According to the Triple Bottom Line Concept of Elkington (1997), a company should be responsible for its social, environmental as well as financial performances, which is also known as the “profit, people and planet” approach. This concept encourages a company to take both the contributions and impacts they make to the social, economic and environmental into account when measuring their corporate performance (Mellahi, e tal, 2005, p.109). To follow this concept, some corporations have started to look for a strategy which seeks to maximize both financial return and social good. However, some others state that corporate social responsibility contracts the economic performance of one company.

### **2.8.2. The Corporate legal and economic responsibility of manufacturing firms and its translation into profit.**

It is no surprise that the economic contribution of companies in Africa is highly prized, by governments and communities alike. Crane & Matten (2004) claim that economic responsibility in the US is strongly focused on profitability and returns to shareholders, while companies in continental Europe tend to define this contribution much more widely. The latter could also be said of African companies. To use Anglo American as an example, they emphasized in their Report to Society 2003(a form of CSR reporting) that “our economic contribution extends far beyond the profits we generate and can be divided into: 1) Value added in the course of production and the wider effects of these activities (for example, through payments to suppliers and multiplier effects) and through investments in staff development, technology transfer and investment; and 2) The

value to society of our products, which are used in the manufacture of goods that underpin our way of life and for which there are few ready substitutes”.

Research reveals that, Anglo American’s economic contribution in Africa exceeds the GDP of many individual African countries. Their approach to economic responsibility, like that of many other companies in Africa, stresses the importance of what the International Business Leaders Forum calls the “economic multipliers”, of which they identify eight: 1) Generate investment and income; 2) Produce safe products and services; 3) Create jobs; 4) Invest in human capital; 5) Establish local business linkages; 6) Spread international business standards; 7) Support technology transfer; and 8) Build physical and institutional infrastructure.

In a country like South Africa, where business is being actively encouraged (and in some cases required) to redress the inequities of the past, economic contribution takes on the added dimension of black economic empowerment and employment equity done through affirmative action. For example, Anglo American is now subject to the South African Mining Charter, which is a legally binding commitment by the industry to increase the access of previously disadvantaged individuals to the mineral resources of the country, and their associated economic benefits. They do this through prioritized development and promotion of previously disadvantaged staff, entering into financial partnerships with empowerment companies and prioritized procurement from black-owned firms.

There is a third and growing perspective that shapes the new principles and practice of corporate social responsibility. This is a rights-based perspective on corporate responsibility. This perspective stresses that consumers, employees, affected communities and shareholders have a right to know about corporations and their business (Davis, K.,1960). Corporations are private initiatives, true, but increasingly they are becoming public institutions whose survival depends on the consumers who buy their products and shareholders who invest in their stocks. This perspective stresses accountability, transparency and social and environmental investment as the key aspects of corporate social responsibility to bolster any profits.

It is generally held that corporate social responsibility (CSR) could increase company profits and thus most large companies are actively engaged in it. But few executives and managers are aware of the research on this important subject. Research does show that it may improve profits. However, linking profit growth to abstract variables that are frequently difficult to define is a

challenging task. Most executives believe that CSR can improve profits. They understand that CSR can promote respect for their company in the marketplace which can result in higher sales, enhance employee loyalty and attract better personnel to the firm.

In fact, Friedman recommended that corporation law should be modified to discourage corporate social responsibility (Manne, 2006). And yet more than thirty years after Friedman made his declaration, corporate social responsibility has become the norm. Surprisingly enough, empirical research indicates positive, neutral and even negative results of corporate social responsibility on financial performance. While corporate social responsibility skeptics can explain away the practice of corporate social responsibility as a result of pressure from society, an explanation for the profit motives behind corporate social responsibility becomes even more necessary to explain the source of the social pressure.

In a most recent study on this subject is by Cristiana Manescu (2010) thesis titled "Economic Implications of Corporate Social Responsibility and Responsible Investments," at the University of Gothenburg's School of Business, Economics and Law, Sweden, she wrote on December 6, 2010 that, "the results of her thesis reveal that CSR activities do not generally have a negative effect on profitability, but that in the few cases where they have a positive effect, this effect is rather small." Other studies add further perspectives. She made a conclusion on her study that all the economic and social support given to communities make the organization weaker financial because they reduce the profit margin of the firms

At the heart of the debate as to whether CSR improves profits is first how you define it. Besides the terms CSR and CC, another frequently used and related term is corporate social performance (CSP). In the above quoted EIU study, it provides the following definition of corporate citizenship (CC): "corporate citizenship is defined as transcending philanthropy and compliance, and is addressing how companies manage their social and environmental impacts as well as their economic contribution. Corporate citizens are accountable not just to shareholders, but also to business stakeholders such as employees, consumers, suppliers, local communities and society at large."

### **2.8.3. Relationship Between Ethical Business Practices and Profitability**

The ethics of any business is the foundation of corporate social responsibility. Jones and George (2006) stated that "a company's ethics are the result of differences in societal, organizational,

occupational, and individual ethics. In turn, a company's ethics determine its stance or position on social responsibility" (p. 134). Ethics are associated with CSR and there is a need for professional codes that institutionalize business ethics and CSR. In addition, professional codes should therefore "be developed to represent the moral views of the public' and enforced to enhance individual behavior and prevent future misconduct" (Valentine & Fleischman, 2008, p. 663).

In a study conducted by Valentine and Godkin (2009) it was revealed that there were implications for managers. The participation in CSR reveals the emergence of the importance of ethics. The ethical ingredient precipitates the institutional process and managers were encouraged to utilize resources for CSR efforts. Therefore, a CSR program should facilitate an organization's efforts to assist stakeholders and build an ethical environment which encourages ethical decision making.

A study conducted by Yisau Babalola in 2012 reveals that, "Organizations have developed a variety of strategies for dealing with this intersection of societal needs, the natural environment, and corresponding business imperatives with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations. Worldwide a firm cannot ignore the problems of the environment in which it operates".

The research into ethical practices and profitability shows mixed results. While there are too many variables to conclusively prove that ethical behavior leads to increased profits, the majority of studies demonstrate a statistically relevant connection. Paul A. Parks (2008) Parks goes ahead to reveal that, Poor ethics can be very costly. Federal legislation, such as the Sarbanes-Oxley Act and the Federal Sentencing Guidelines have made it very clear that companies are responsible for employee misconduct when the employee is acting in an official capacity regardless of whether or not the company was aware of the misconduct or not.

A study conducted by Yisau Babalola (2012) reveals that, good ethics, on the other hand, can be quite beneficial. At the very least, an ethical culture reduces the high-pressure, non-communicative, highly politicized work environments that can exist. But at its best, ethical cultures lead to employee satisfaction, which fuels profitability. Satisfied employees consistently out produce and outperform those employees who are less satisfied in their work environments. In the most recent study, The Wharton School at the University of Pennsylvania found that firms considered to be good places to work earn returns that are more than double those in the overall

market. While many studies have documented the fact that a sense of fairness is critical to developing consistent and long-term business relationships, one study took the idea a step further to show that fairness in business dealings can maximize profitability.

#### **2.8.4. The philanthropic responsibilities of a manufacturing firm and its profitability**

The social and environmental responsibilities of enterprises may reflect the changing expectations of society. For example, what enterprises consider convenient practices today may become indispensable one's tomorrow. (Cooke, 2008). In addition, it is expected that different social actors interested in the activities of a certain enterprise was prioritize different social and environmental demands, which may contradict or compete with one another at times (Yisau Abiodun Babalola, 2012).

Also, CSR activities focusing on sustainability issues may lower costs and improve efficiencies as well. An added advantage for public companies is that aggressive CSR activities may help them gain a possible listing in the FTSE4Good or Dow Jones Sustainability Indexes, or other similar indices. This may enhance the company's stock price, making executives' stock and stock options more profitable and shareholders happier. Substantiating some of these beliefs is a study, corporate citizenship: Profiting from a sustainable business. (Economist Intelligence Unit, Nov. 2008), Corporate citizenship is another term roughly equivalent to CSR.

In a comprehensive review of the literature on the profitability of manufacturing firms resulting from their social and environmental responsibility, Vogel David (2008) reveals that companies and manufacturing firms are more less misplacing their resources in CRS. In a statement made by him; "We increasingly hear that corporate economic responsibility has become a business imperative. Newspapers, magazines and books glowingly describe the business benefits of behaving responsibly—and caution managers about the business risks of a poor CSR performance, executives are repeatedly informed that by demonstrating concern for the environment, human rights, community development and the welfare of their employees both in the U.S. and abroad, they will make their firms more profitable.

Their firms will gain a competitive advantage by appealing to the growing numbers of socially and environmentally oriented consumers, investors and employees. This belief that corporate responsibility "pays" is a seductive one: Who would not want to live in a world in which corporate

virtue is rewarded and corporate irresponsibility punished? Unfortunately, the evidence for these rewards and punishment is rather weak. There is a “market for virtue,” but it is a very limited one. Nor is it growing.

He goes ahead to say; “One can certainly find examples of firms with superior CSR performance that have done well, as well as firms with poor CSR reputations that have performed poorly. But there are at least as many examples of firms with good CSR records that have not done well and firms with poor CSR reputations that rewarded their shareholders. The good news is that firms with superior CSR performance have not performed any worse than their less virtuous competitors. But the disappointing news is that neither have they done any better. For most firms, most of the time, CSR is largely irrelevant to their financial performance”.

Vogel argues that, the long-term performance of socially responsible investment funds has been no better, or worse, than those of funds that use other criteria to predict future shareholder value. Part of the reason why CSR does not necessarily pay is that only a handful of consumers know or care about the environmental or social records of more than a handful of firms. “Ethical” products are a niche market: Virtually all goods and services continue to be purchased on the basis of price, convenience and quality.

In a similar view Brookings (2005) share the same sentiment with Vogel (2008) claiming that, although ethical mutual funds have grown in size, they have had no measurable impact on share prices. Mainstream investors still rarely consider a firm’s CSR record in deciding which shares to buy, sell or hold. While many business students now profess an interest in working for more responsible firms, their less responsible competitors appear to have no difficulty in attracting top talent. He gives an example of Starbucks which he says provides a good example of the limited importance of CSR to financial performance.

According to Myanmar (2014) the firm enjoys a strong CSR reputation due to its generous labor policies and its commitment to improve the earnings and environmental practices of coffee growers in developing countries yet since the beginning of 2008, its shares have recently declined nearly 50% (at last glance the S&P 500 is down “only” 36%). The stock’s disappointing performance has absolutely nothing to do with CSR: It is entirely due to the firm’s overexpansion and, most recently, the increasing unwillingness of consumers to pay as much for a cup of coffee as for a gallon of gasoline.



Brookings further give examples of what he called “CSR icons”, such as Levi Strauss, Gap, Whole Foods and Timberland, as having also fared poorly in the marketplace with General Electric being widely applauded by environmentalists for its “Ecomagination” line of more energy efficient and environmentally responsible products which products have sold well, prompting many observers to conclude that for corporate America, “green” has become the new “green.” But before the recent market chaos, GE’s share price had been stagnant for nearly six years. Whatever GE’s current or projected earnings from Ecomagination, as well as from the firm’s substantial investments in alternative energy, they have been overshadowed by Wall Street’s disappointment with GE’s overall earnings. In fact, GE performed much better under Jack Welch, who was not known for his interest in environmental responsibility. Moreover, GE also continues to make substantial, and highly profitable, investments in the financing and construction of coal-fired power plants, indicating that there is still money to be made by less environmentally responsible behaviour.

In another example given by Vogel, he shows us the firm with possibly the world’s poorest environmental reputation as Exxon Mobil, largely due to its reputed indifference to the problem of global climate change and its continued focus on fossil fuels. Yet Exxon-Mobil is one of the world’s most profitable corporations. Over an extended period of time, it has performed far better financially than BP, which changed its brand to Beyond Petroleum to emphasize its responsibility to help reduce the world’s dependence on fossil fuels, and which, unlike Exxon-Mobil, has supported mandatory greenhouse gas reductions but the contrast between Exxon-Mobil and BP reveals another limitation of the business case for corporate responsibility. (Janeya Cooper, 2012). It is often difficult to distinguish responsible and irresponsible firms. While BP may have a more responsible record than Exxon-Mobil when it comes to the issue of global climate change, Exxon-Mobil has recently been far more successful in preventing accidents and avoiding oil spills. It is thus not obvious which firm is more ‘responsible.’ (Robert W. Kolb, et al, 2010)

David Vogel (2008) gives a conclusion that one can find examples of successful firms for whom CSR has been a core element of their business strategy with Patagonia and Seventh Generation coming readily to mind. Other firms such as Dupont, Alcoa and IBM also reaping substantial savings from reducing their energy use while Toyota has successfully marketed hybrid cars but it is important not to generalize from these examples and assume that the business environment has

fundamentally changed and that we are entering a new world in which CSR has become critical to the success of *all* or even *most* firms is misinformed. He recommends that though the market has many virtues, reconciling corporate goals and public purposes is unfortunately not among them thus Managers *should* try to act more responsibly without necessarily expecting the market to reward them—or punish their less responsible competitors

### **2.8.5. The relationship between corporate social responsibility and profitability**

Although the question of social responsibility and subjugating the responsibility to obtain profits for a company is not new, it is still one that is debated within corporations, as well as in business schools. Consequently, is ignoring corporate social responsibility while ensuring stockholder's return on their investment ethical when it is at the expense of stakeholders

In a research to examine the corporate social responsibility and profit maximization, Friedman is noted to have believed that "there is one and only one social responsibility of business - to use its resources and engage in activities designed to increase its profits" (Friedman, 1970). He contends that executives and managers of a business are responsible to the stockholders and that social responsibility is an individual desire. As such, the shareholder model asserts executives and managers of any business are agents for the organization and do not have the authority to expend money for social responsibility. The model consists of corporate governance which is the oversight of top management by a board of directors (Schermerhorn, 2010).

Friedman (1970) also stated that in practice the principle of social responsibility is quite often a mask for actions that are justified on other grounds rather than a reason for those actions. His argument was that the cloak of corporate charitable contributions was a public relations ploy by the stockholders to increase their corporation's desirability for attracting customers, employees and community support, as well as reducing corporate taxes. This may be true, but would not the stakeholders benefit from the benevolence of the corporation? The long-term goal is to increase the market share of the business and increase profits. Good public relations and reputation is good strategic planning to increase the business' bottom-line which is profits.

Although, it is difficult for one to agree that CSR is a mask as stated by Friedman, Hansen, et al, (2010) contend from their empirical study that the results of CSR have both tangible and intangible effects on the corporation. They believe CSR manifests in improved reputation, brand equity,

better employee relations and the overall quality of management which are drivers for financial return. Kacperczyk (2009) contends that current trends have led to shareholders diverting attention and powers away from managers who use corporate resources to pursue their interests to include social programs. Thus, shareholders have the power of voting on disbursement of resources. In addition, the requirement of terms on boards by executives tends to minimize the power gained by managers and executives.

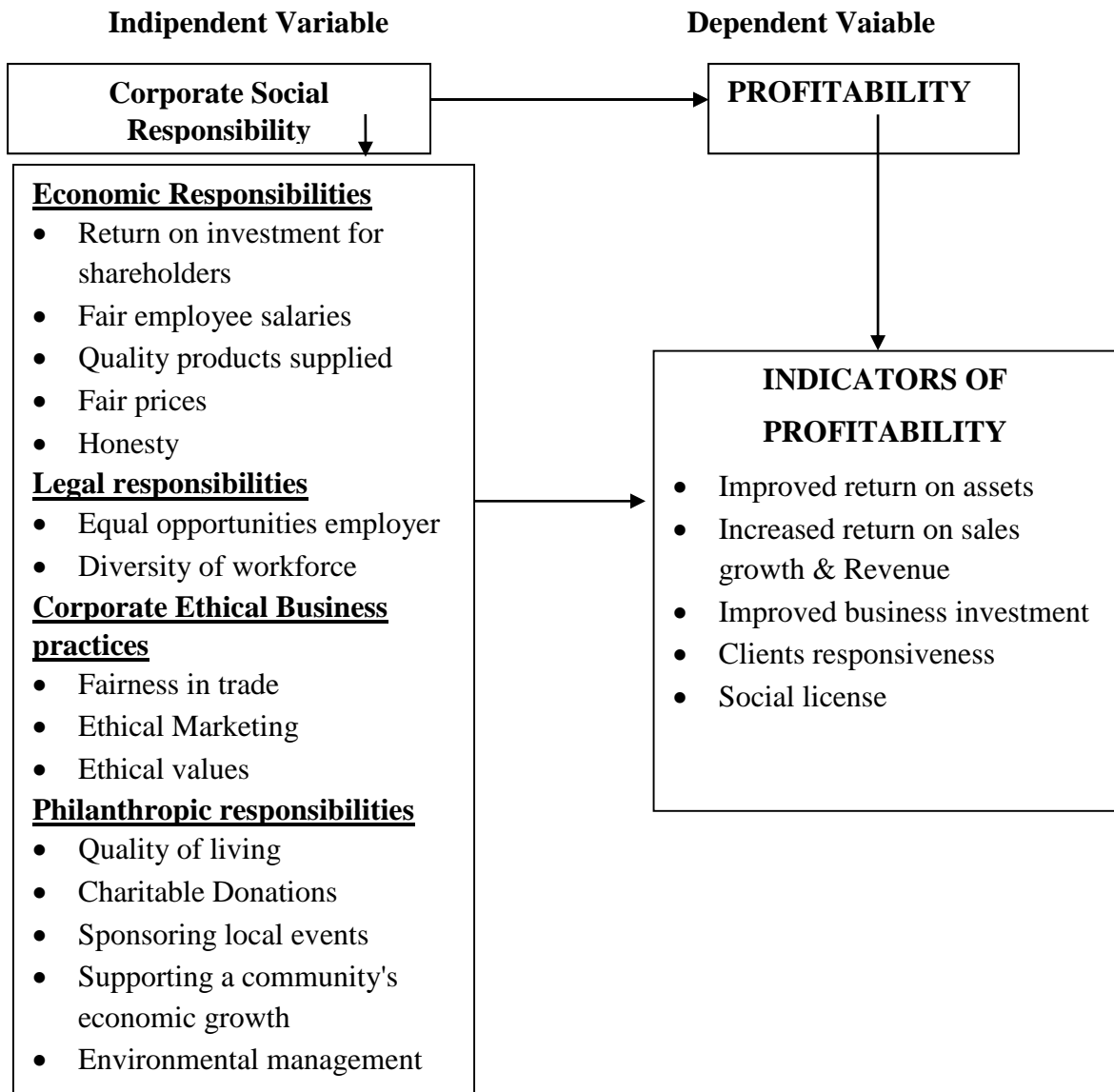
Fairfax (2011) supports what she terms as a changing in the landscape. With the SEC new rulings and provisions as well as the Enron and AIG scandals, the power of boards, executives and managers has been stripped by required proxy voting, recommendations of board members by shareholders and staggered boards. Fairfax stated in her article, "This change has a significant impact on shareholders' ability to influence corporate affairs. Indeed, the concentration of institutional ownership has the potential to overcome the collective-action problems posed by the traditional pool of dispersed retail investors. As a result, that ownership enhances institutional investors' ability to communicate with the board and with one another, thereby enhancing their potential ability to influence corporate affairs. To be sure, other factors may limit this ability. Nevertheless, the rise of the institutional investor opens the door for shareholders to engage in greater activism and ultimately exercise greater power over the corporation" (p. 21).

## 2.9. Conceptual Framework

### 2.9.1. Overview

A conceptual framework is a diagrammatic representation of the relationship between the independent variable and dependent variables and their outcomes. The conceptual framework below illustrates the impact of corporate social responsibility on Profitability of firms the case of selected manufacturing companies in north Shewa zone. Below is the conceptual frame of CRS comparing the components to the profitability of selected firms.

Figure 2.1 Conceptual Framework



Source: Conceptualized by researcher based on literature review

### **2.9.2. Narrative of the Conceptual Framework**

The above conceptual Framework lays out the key social responsibility aspects, constructs, or variables, and the presumed relationships among them (Mile & Huberman, 1994). They further indicate the graphic designs of main variables connected by directional arrows specifying inter-variable relationships to make this framework very clear, as indicated in the illustration above.

In the conceptual framework given above, there is an understanding of corporate social issues that companies get involved to boost their operational relationships with the local communities. The independent variable is illustrated using the Carroll (1991)'s four-part model of corporate social responsibility in connection to the business model to guarantee equity, viability, sustainability and bearable conditions of the environmental, social and economic situation of the community.

**Economic responsibilities:** The first responsibility of the company towards society involves running the business as an economically healthy unit. It includes aspects such as return on investment for shareholders, fair employee salaries, and quality products supplied to customers at fair prices with the due respect they deserve; all required by the society (Crane & Matten, 2004).

**Legal responsibilities:** Demands that companies act in accordance with existing legislation and regulatory requirements. The legal framework consequentially fosters society's ethical view and all companies attempting to be socially responsible are therefore required by society to follow the law. (Crane & Matten, 2004).

**Ethical responsibilities:** Refers to corporations' responsibilities which are not covered by legal or economical requirements, but instead by what could be considered as 'right' or 'fair' in the eyes of society. Society therefore expects corporations to act ethically towards their stakeholders (Crane & Matten, 2004).

**Philanthropic social responsibilities:** Involves the corporation's willingness to enhance the quality of living for their stakeholders (i.e. employees, local community, and society at large) through charitable donations and organizational support. These corporate decisions are entirely voluntary, of less importance than the former three, and (with regards to social responsibility) only seen as desired by society (Crane & Matten, 2004)

#### **Profitability of Manufacturing firms (Dependent Variable)**

Profitability involves fundamental analysis which investigates the financial health of companies. An example of a profitability ratio is the return on investment which is the amount of revenue an investment generates as a percentage of the amount of capital invested over a given period of time. Other examples include return on sales, return on equity, and return on common stock equity. Classes of financial metrics that help investors assess a business's ability to generate earnings

compared with its expenses and other relevant costs incurred during a specific period. When these ratios are higher than a competitor's ratio or than the company's ratio from a previous (Moskowitz Prize,2004).

In a research conducted to look at company's engagement with CSR impacts on financial performance, and to identify the mechanisms through which it does so, Manescu analyzed sustainable Investments from two perspectives: that of companies and the financial markets. Her results revealed that CSR activities do not generally have a negative effect on profitability, but that in the few cases where they have a positive effect, this effect is rather small. It also revealed that financial markets react relatively strongly and negatively to negative news about companies CSR efforts, but do not react to positive CSR performance news.

She emphasizes the fact that, as CSR is a concept that spans many dimensions, in many cases being not even well defined, it is difficult to assess a company's CSR achievements fairly and comprehensively by a single representative number. This is partly because her research shows that different dimensions of CSR have different effects on profitability.

To be able to construct a meaningful CSR performance index. Defining the experience of CSR in relation to different industries is this study, *The Economics and Politics of Corporate Social Performance*, by David P. Baron, Maretno A. Harjoto, and Hoje Jo, published on April 21, 2009. The researchers found that, for consumer industries, greater CSP [corporate social performance] is associated with better CFP [corporate financial performance], and the opposite is true for industrial industries... Empirical studies have examined the relation between CSR and corporate financial performance, and while the results are mixed, overall the research has found a positive but weak correlation (Moskowitz Prize, 2004.)

# CHAPTER THREE

## 3. RESEARCH METHODOLOGY

This chapter presented methodology of the study encompassed description of the study area, research design, data type and sources and data gathering instrument. In addition, reliability test, test of significance, target population, sampling technique and population size, and method of data analyzing and model specification was including in this chapter.

### 3.1. Area Description

In North Shewa zone there are over 32 higher manufacturing industries operating in Debrebirhan and the remaining area. North shewa zone is one of the zonal states of Amhara national regional state located in the central part of the country, covering a total area of 17,347.19 square kilo meters. North shewa zone is structured into 27 administrative woredas with its capital city of Debrebirhan and 5 of them are city admiration and the other is rural districts locally called woreda (the second administrative level below the zone the boundary of North shewa zone is located at the northern borders with south wollo zone of the region, the State of Afar in the east, the State of Oromia in the south, and in the west.

Figure 3.1 Amahara North Shewa map



Source: Atsenaf Seged. (2018, 12 20). *North\_shewa\_amhara*. Retrieved from reddit.com:

### 3.2. Descriptions of Variables And Measurements

This study incorporates two types of variables namely dependent variable in which is profitability and independent variable, corporate social responsibility (economic responsibility, legal Responsibility, corporate ethical business practice, and philanthropic responsibility). A 5-point Likert scale with respondents' answers ranging from "Strongly Agree" to "Strongly Disagree" was used to collect information and measure the independent variables and dependent variable.

Corporate Social Responsibility (Independent Variable) and Profitability (Dependent Variable) was all measured using a structured questionnaire based on a 5-point Likert scale (Martzler and Bailom, 2014) where 1=Strongly Disagree 2=Disagree, 3= Not Sure, 4= Agree and 5=Strongly Agree were adopted in this study due to its suitability in measuring perceptions, attitudes, values and behaviors that impact of CSR on profitability.

#### **Profitability of manufacturing firms (Dependent Variable)**

In return upon giving in and being socially, economically and environmentally being responsible to the society, the business expect returns on Assets & investment, Social license, returns on sales and revenue, social responsiveness to the business among others.

In measuring profitability of a business, we focus on ratio that measures a company's ability to generate cash flow relative to some metric, often the amount invested in the company. Profitability involves fundamental analysis which investigates the financial health of companies. An example of a profitability ratio is the return on investment which is the amount of revenue an investment generates as a percentage of the amount of capital invested over a given period of time. Other examples include return on sales, return on equity, and return on common stock equity.

Classes of financial metrics that help investors assess a business's ability to generate earnings compared with its expenses and other relevant costs incurred during a specific period. When these ratios are higher than a competitor's ratio or than the company's ratio from a previous (Moskowitz Prize,2004).

#### **Independent variables:**

**Economic responsibilities:** The first responsibility of the company towards society involves running the business as an economically healthy unit. It includes aspects such as return on investment for shareholders, fair employee salaries, and quality products supplied to customers at fair prices with the due respect they deserve; all required by the society (Crane & Matten, 2004).



**Legal responsibilities:** Demands that companies act in accordance with existing legislation and regulatory requirements. The legal framework consequentially fosters society’s ethical view and all companies attempting to be socially responsible are therefore required by society to follow the law. (Crane & Matten, 2004).

**Ethical responsibilities:** Refers to corporations’ responsibilities which are not covered by legal or economical requirements, but instead by what could be considered as ‘right’ or ‘fair’ in the eyes of society. Society therefore expects corporations to act ethically towards their stakeholders (Crane & Matten, 2004).

**Philanthropic social responsibilities:** Involves the corporation’s willingness to enhance the quality of living for their stakeholders (i.e. employees, local community, and society at large) through charitable donations and organizational support. These corporate decisions are entirely voluntary, of less importance than the former three, and (with regards to social responsibility) only seen as desired by society (Crane & Matten, 2004)

**Table 3.1 Summaries of Variables for Terms of Measurement**

|                                 | Variable             | Type of variable | acronym | Term of measurement |
|---------------------------------|----------------------|------------------|---------|---------------------|
|                                 | Profitability        | Dependent        | prof    | Likert scale        |
| Corporate Social Responsibility | Economic             | Independent      | eco     | Likert scale        |
|                                 | Legal                | Independent      | leg     | Likert scale        |
|                                 | Ethical              | Independent      | eth     | Likert scale        |
|                                 | Philanthropic social | Independent      | phil    | Likert scale        |

### **3.3. Research Design**

The primary aim of this study was to examine the impact of corporate social responsibility. To achieve this objective descriptive and explanatory type of research design with a mixed approach, more of quantitative was use The explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration. So that, in this study the explanatory research design was applying to examine the relationship of the stated variables. Therefore, by the type of data for this study was primary and secondary type. Primary data source was obtaining through questionnaire and interview.. This study was use collected, using close ended questionnaire. In addition to this, the study was applying correlation regression and multiple regression models.

### **3.4. Data Source and Methods**

#### **3.4.1 Data Source**

The primary source of data for this study was collected through structured questionnaire, , which was carefully frame and administered to a sample of one hundred twenty-one (121) respondents from six (6) selecting manufacturing companies by using purposive sampling technique. To collect the necessary data, the researcher was use five point non-comparative Likert scale for both independent variable and dependent variable. The intent of the Likert is that the statement represents different aspects of the same attitude. Likert scale is simple to construct, and easy for the respondents to read, understand and respond appropriately to the statements put across. The Likert scale enhances the production of highly accurate results during analysis.

#### **3.4.2 Method of Data Collection**

A Questionnaire was used in data collection method.

**Questionnaire:** This study collecting information by distributing questionnaire to director, manager and supervisor. The researcher using questionnaire as the most instrument of data gathering since it enables to acquire a lot of information in reasonable time. The researcher was collected primary data on the current state of affairs of the six manufacturing companies through close ended self-administered questionnaire. The study was use self-administrated questionnaire as it leads to high response rate, accurate sampling, and minimum of bias, providing necessary explanation and giving the chance of personal contact. Structured questionnaire allows for uniformity of response to question and creates uniformity of measurement as it gives equal alternative to respondents and has higher reliability and ease of coding.

### 3.5. Measurement of Variables

Corporate Social Responsibility (Independent Variable) and Profitability (Dependent Variable) were all measured using a structured questionnaire based on a 5-point Likert scale (Martzler and Bailom, 2014) where 1=Strongly Disagree 2=Disagree, 3= Not Sure, 4= Agree and 5=Strongly Agree were adopted in this study due to its suitability in measuring perceptions, attitudes, values and behaviors that relate to CSR and profitability. The researcher used a standard range of 0.74 + 0.01 in computing the data.

The response for the questionnaire on corporate social responsibility were ranked using a five Likert scoring scale (5,4,3,2,1), response mode applied to generate data on the independent variable from all respondents in the firms in representation of the key responses (strongly agree, agree, undecided or neutral, disagree and disagree), description and interpretation level of CSR and Profitability (Very Satisfactory, satisfactory, unsatisfactory, Very un-satisfactory and neutral) and the response modes, scoring and interpretation of scores are as indicated below.

**Table 3.2 Interpretation of mean values on the Independent Variable.**

| Scale | Mean range  | Response mode     | Description                                       | Interpretation      |
|-------|-------------|-------------------|---|---------------------|
| 5     | 4.01 – 4.75 | Strongly Agree    | You agree with no doubt at all                    | Very Satisfactory   |
| 4     | 3.26 - 4.00 | Agree             | You agree with some doubt                         | Satisfactory        |
| 3     | 2.51 - 3.25 | Not sure          | You disagree with no doubt                        | Moderate            |
| 2     | 1.76 - 2.50 | Disagree          | You disagree with no doubt at all                 | Unsatisfactory      |
| 1     | 1.00 – 1.75 | Strongly Disagree | You do not have any Idea about the issue on table | Very unsatisfactory |

**Source: Primary Data, 2021**

The response for the questionnaire on the level of profitability (DV) were ranked using a five Likert scoring scale (5,4,3,2,1), response mode applied to generate data on the dependent variable from all respondents in the firms in representation of the key responses (strongly agree, agree, Not sure, disagree and disagree), description and interpretation on the level of Profitability (Very high,

high, low and very low) and the response modes, scoring and interpretation of scores are as indicated below.

**Table 3.3 Interpretation of mean values on the Dependent Variable**

| Scale | Mean range  | Response mode     | Description                                       | Interpretation |
|-------|-------------|-------------------|---|----------------|
| 5     | 4.01 – 4.75 | Strongly Agree    | You agree with no doubt at all                    | Very high      |
| 4     | 3.26 - 4.00 | Agree             | You agree with some doubt                         | High           |
| 3     | 2.51 - 3.25 | Disagree          | You disagree with no doubt                        | Low            |
| 2     | 1.76 - 2.50 | Strongly Disagree | You disagree with no doubt at all                 | Very low       |
| 1     | 1.00 – 1.75 | No Response       | You do not have any Idea about the issue on table | Neutral        |

Source: Primary Data, 2021

### 3.6. Validity And Reliability of The Instrument

#### 3.6.1 Validity of the instrument

The researcher with the help of advisor and a statistician used the Content Valid Index (CVI) which is a scale developed by computing or rating the relevant items in the instrument or questionnaire by checking their clarity, their meaningfulness in line with all objectives stated dividing by the total number of items.

The researcher established the validity of the instrument by using expert judgment method as suggested by Amin (2005). This involved judges scoring the relevance of the question in the instrument in relation to the study variables and consensus judgment given on each variable as given below;

$$\text{If CVI} = \frac{\text{number of items declared Relevant and valid}}{\text{Total Number of Items}}$$

$$\text{It implies that CVI} = \frac{25}{29} = 0.862$$

$$\text{CVI} = 0.862$$

The data collection instruments in the research were valid at 0.862 implying that the data collected is adequately representative enough of the view of the respondents.

### 3.6.2 Reliability of the Study

The Reliability of the instruments was tested using the Cronbach's Alpha coefficient using SPSS data analysis scale development tool. It was used due to the several responses involved (i.e Strongly agree = 5, Agree = 4 among others). To establish the reliability of the instrument, the reliability analysis was made to establish the Cronbach's Alpha coefficient. Cronbach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Cronbach's alpha coefficient is to 1.0 the greater the reliability of the items in the scale. George and Mallery (2003) however, provide the following rules of thumb: “ $\geq .9$  – Excellent,  $\geq .8$  – Good,  $\geq .7$  – Acceptable,  $\geq .6$  – Questionable,  $\geq .5$  – Poor and  $< .5$  – Unacceptable” (p.231). The details are indicated in the table below;

**Table 3.4 Represents the Cronbach's Alpha coefficient of the reliability analysis.**

| No. | Variable Constructs                                      | No. of Items | Cronbach's Alpha Coefficient |
|-----|--|--------------|------------------------------|
| 1.  | Corporate Social Responsibility                          | 05           | 0.974                        |
| 2.  | Ethical Business Practices                               | 04           | 0.957                        |
| 3.  | Legal and economic responsibility of manufacturing firms | 04           | 0.977                        |
| 4.  | The Philanthropic responsibility                         | 04           | 0.961                        |
| 5.  | Profitability  | 08           | 0.978                        |
| 6.  | Overall IV   | 17           | 0.990                        |
| 7.  | Overall DV   | 08           | 0.978                        |
| 8.  | Over all reliability                                     | 25           | 0.993                        |

**Source: Primary Data 2021**

The reliability analysis for the items considered relevant and valid for this research was 0.993 implying that the respondents understood the questions put to them by the researcher, thus the data generated becomes reliable.

### **3.7. Target Population**

A population can be defined by any number of characteristics within a group that statisticians use to draw conclusions about the subjects in a study. A population can be vague or specific.

The target population is the specified group of people from which questions was ask in order to develop the required data structures and information need in the research (Cress well and John, 2003). According to the report obtaining from north Shewa zone investment office, in this study the population/participants were manufacturing companies including their company structure are a share company and private limited companies located in north Shewa zone that exist in the fiscal year of 2020.

The target population of the study consisting of thirty-two (32) higher manufacturing industries operating in Debre birhan and the remaining area operating in the fiscal year of 2020.

### **3.8. Sampling Techniques And Procedure**

Sampling means choosing a smaller, more manageable number of people to take part in the research from the population (Catherine, 2002). Currently in north Shewa zone there are over 32 higher manufacturing companies operating in debre berhan and in woredas. from these six manufacturing companies namely National Tobacco S.C, Debre Berhan wood processing PLC, Rorank Business S.C, Debre Berhan Blanket Factory PLC, Dashen Brewery S.C and Debre Berhan Natural Purified Mineral Water S.C. was have selected by using purposive sampling technique considering the companies' length of time established, seniority of the companies and known by the community.

Purposive sampling targets a particular group of people. When the desired population for the study is rare or very difficult to locate and recruit for a study, purposive sampling may be the only option. The researcher using purposive sampling by considering the time concern, the cost allocated for the research and availability of data. Then to select specific respondent out of the total population of the study the researcher was use purposive sampling technique to involves the selection of samples from the sample frame (Saunderset.al, 2007). Because the researcher uses this technique assuming Director, Manager and Supervisor are more knowledgeable and have an idea about corporate social responsibility than other lower level staff.

### 3.9. Sample Size

Sample size is a frequently-used term in statistics and market research, and one that inevitably comes up whenever you're surveying a large population of respondents. It relates to the way research is conducted on large populations (Jon Zamboni, 2010). If stratification is not involved and sample is directly drawn from a known population, then the minimum required sample size can be determined using Yamane (1967-886) provides the following simplified formula to calculate sample size from a single population. The sample size for this study was determined using the following formula.

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

Where                    n= sample size  
                              N= population size  
                              e= sampling errors or precision level usually an alpha 0.05

Therefore, Sample size for this study was as follows

For N =173 Director, management and supervisor of total population manufacturing companies

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

$$n = \frac{173}{1 + 173(0.05)^2} = 121$$

So, **121** employees are approximate sample size for this study.

The sample size of the study was containing management body and other professional staff of Six manufacturing companies, their Company Structure are a share company and private limited company located in north Shewa zone. The reason of selection these six manufacturing companies are based on their company structure level are a Share Company and private limited company, the data is getting from North Shewa investment office.

**Table 3.5 sample size for  $\pm 5\%$  precision levels where confidence level is 95% and  $e= 0.05$ , from each industries as follows: -**

| S.N | Manufacturing Companies               | Total size of the population =N | Proportion of total population % | Determined sample size=P | Sample size from each company(N*P) |
|-----|---------------------------------------|---------------------------------|----------------------------------|--------------------------|------------------------------------|
| 1   | Dashen Brewery S.C                    | 62                              | 35.84                            | 121                      | 43                                 |
| 2   | Debre Berhan Blanket Factory PLC      | 19                              | 10.98                            | 121                      | 13                                 |
| 3   | DB wood processing PLC                | 22                              | 12.72                            | 121                      | 16                                 |
| 4   | Rorank Business S.C                   | 26                              | 15.02                            | 121                      | 18                                 |
| 5   | DB Natural Purified mineral Water S.C | 21                              | 12.14                            | 121                      | 15                                 |
| 6   | National Tobacco S.C                  | 23                              | 13.29                            | 121                      | 16                                 |
|     | Total                                 | 173                             | 100%                             |                          | 121                                |

**Source: Self Developed**

### **3.10. Method of Data Analysis Technique**

Once the data is collected it was check for completeness and ready for analysis. The data from the field was be first coded according to the themes sought on the study. To analyze, the study using descriptive statistics, correlation and regression model. The descriptive statistics was use to quantitatively describe the important features of the variables using mean, standard deviations. The correlation analysis is use to identify the relationship between the independent and dependent using correlation analysis. The correlation analysis shows only the degree of association between variables and does not permit the researcher to make causal inferences regarding the relationship between variables. To explain the relationship between profitability variables and corporate social responsibility variables multiple regression models is applying.

Before Analyzing, data was cleaned, coded, entered and analyzed using Statistical Package for Social Science (Version 20) also, presented percentages, means, standard deviations and frequencies. The data was shown by utilization of bar diagrams, diagrams and pie outlines and in exposition shape. This was finish by tallying up responses, processing rates of varieties accordingly and also portraying and deciphering the information in accordance with the study



destinations and suppositions through utilization of SPSS (Version 20) to convey look into discoveries. The multiple regression analysis was utilized to determine the quality of the relationship between the dependent and independent factors.

### 3.11. Model Specification

Model specification means the mathematical demonstration, simplification and arrangement of the relationship between variables, which is dependent variable and independent variables

Multiple regression analyses was implemented to identify the relationship between multiple independent variables and a single dependent variable (Mutave E. 2017). The study obtaining a mean for each of the indicators of study variable and then another mean for the study variables (obtained the indicators for that variable).

The means obtained was use to carry out correlation between each Independent Variable (IV) and the Dependent Variable (DV). The correlation coefficient established whether there is relationship between the independent variable and dependent variable. If no relationship is established, the independent variable was to be discarded in the further analysis. Multiple regression was have done to estimate the study model regression establishes the nature of the relationship (Nicholas M. 2016).

In this study multiple linear regressions model was use to investigate the relationship between profitability and four independent variables.

The researcher was use the following multiple regression model to analyze the data obtained from the respondent.

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon$$

Where,  $\beta_0$ =constant term  $\beta_1, \beta_2, \beta_3, \beta_4$  are coefficient of independent variable

Y=dependent variable or Profitability

X1= Economic Responsibilities

X2= Legal responsibilities

X3= Corporate Ethical Business practices

X4= Philanthropic responsibilities

$\varepsilon$ = an error term

### **3.12. Test of Significance**

The researcher is using 95% confidence level, implying that the significance value should be no higher than 0.05 levels or 5%. The Pearson Correlations Coefficient is using to test the direction and magnitude of the relationship between the dependent and independent element variables at 95% confidence level. The model significance is testing using the parameters coefficient.

## CHAPTER FOUR

### 4. DATA ANALYSIS AND DISCUSSION OF RESULT

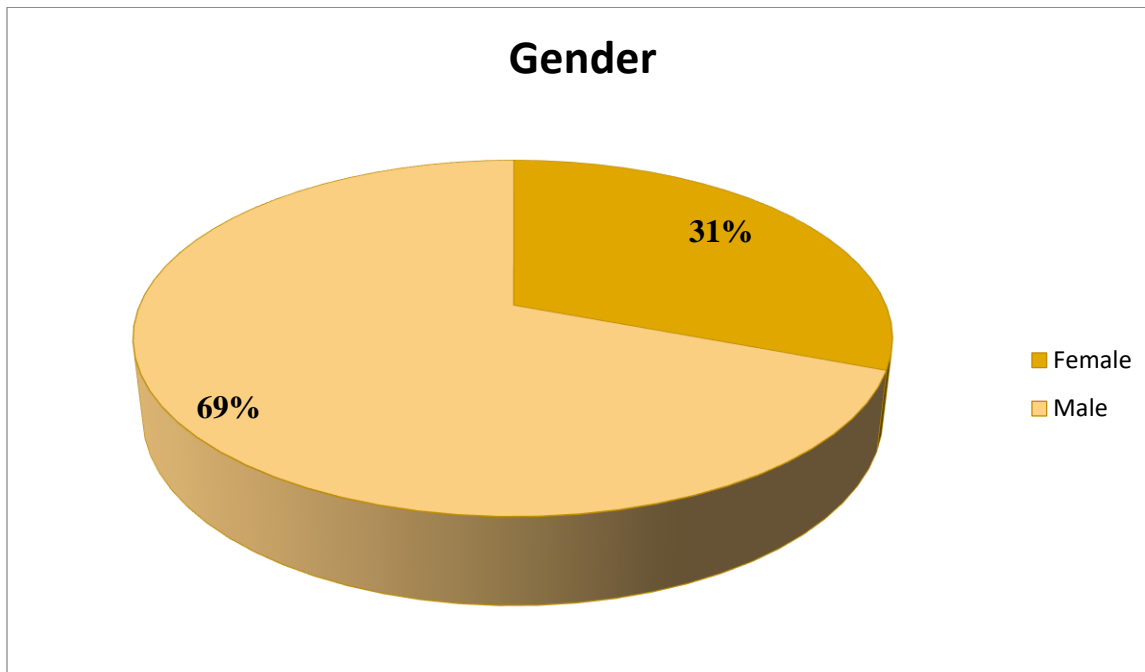
This chapter presents the analysis and discussion of the collected data. It gives the socio-demographic characteristics of the respondents and describes the objective of the research, the variable used, and the related analysis of collected data.

As the researcher discussed in the previous chapters the major objective of this study is to investigate the impact of corporate social responsibility on profitability of firms. Therefore, this chapter deals with the result and analysis of the findings and it contains three sections. The first section presented descriptive analysis on variable of the study; the second section presented correlation analysis of the variables and the third section present the result of regression model.

#### 4.1. Demographical Characteristics of The Respondent

This section determines the demographical characteristics of the respondents based on Age, Gender, Educational status and occupation. The frequency and percentage distribution are used to summarize the demographic characteristics of the respondent as show in the figure graph and table

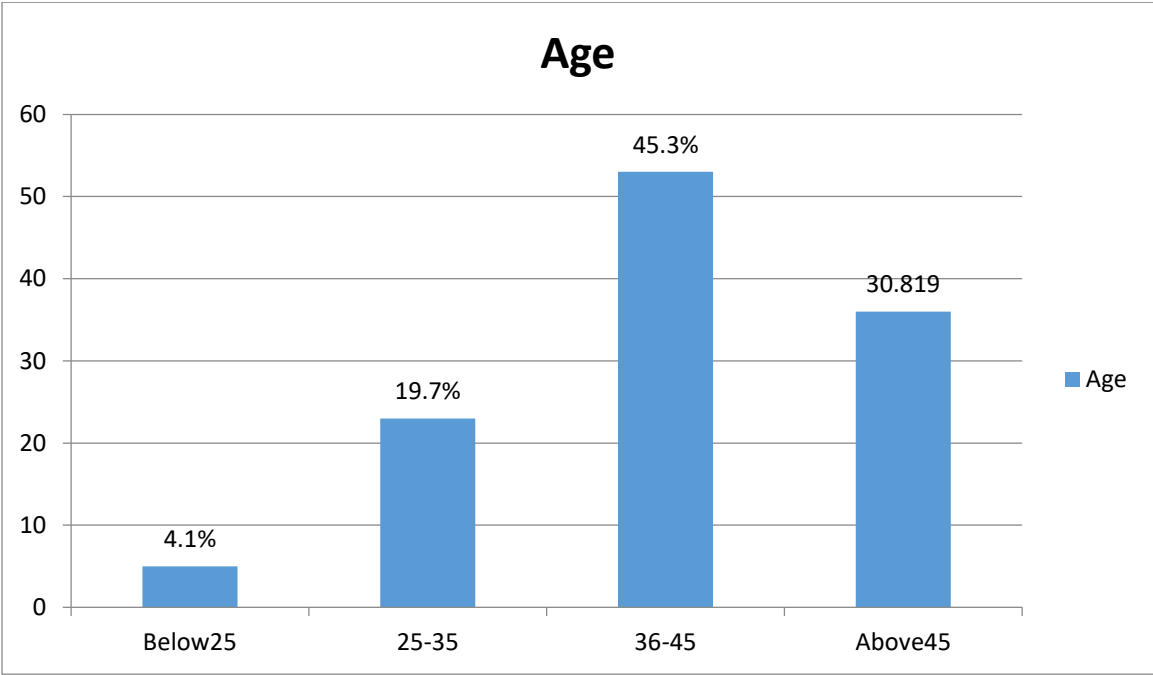
Pia chart 4.1 gender



Source: Primary Data 2021

The result of the respondent in above chart shows that the majority of respondents are men (81) 69%, while women are only (36) 31%. This indicates that there are many male staff than female this means that decisions on corporate social responsibility are dominated by men, so more women (female) are needed in manufacturing firms and working department.

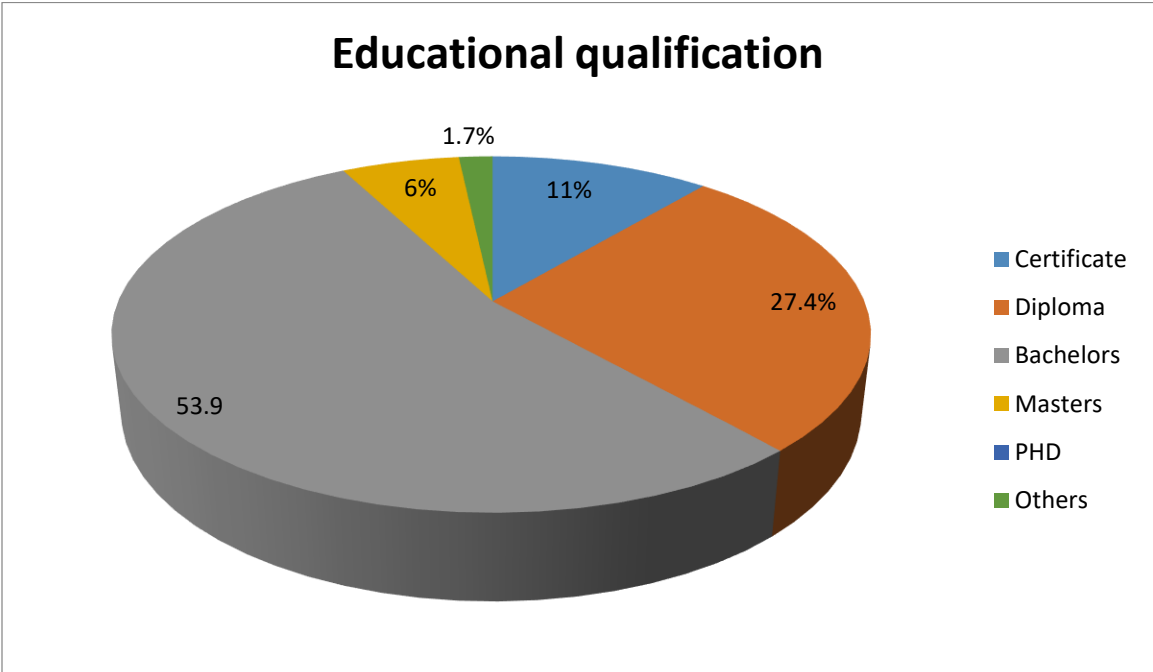
**Column 1 Age**



**Source: Primary Data 2021**

Column 1 shows that most of the respondents grouped under the age of 36-45 53 (45.3%) and 36(30.82%) fall under above 45 the rest 23-35 23 (19.7%) respondents, only 5 (4.1%) below 25. This interpreted that young people are the main component of the working class in the manufacturing firms and community management although some older work force are found.

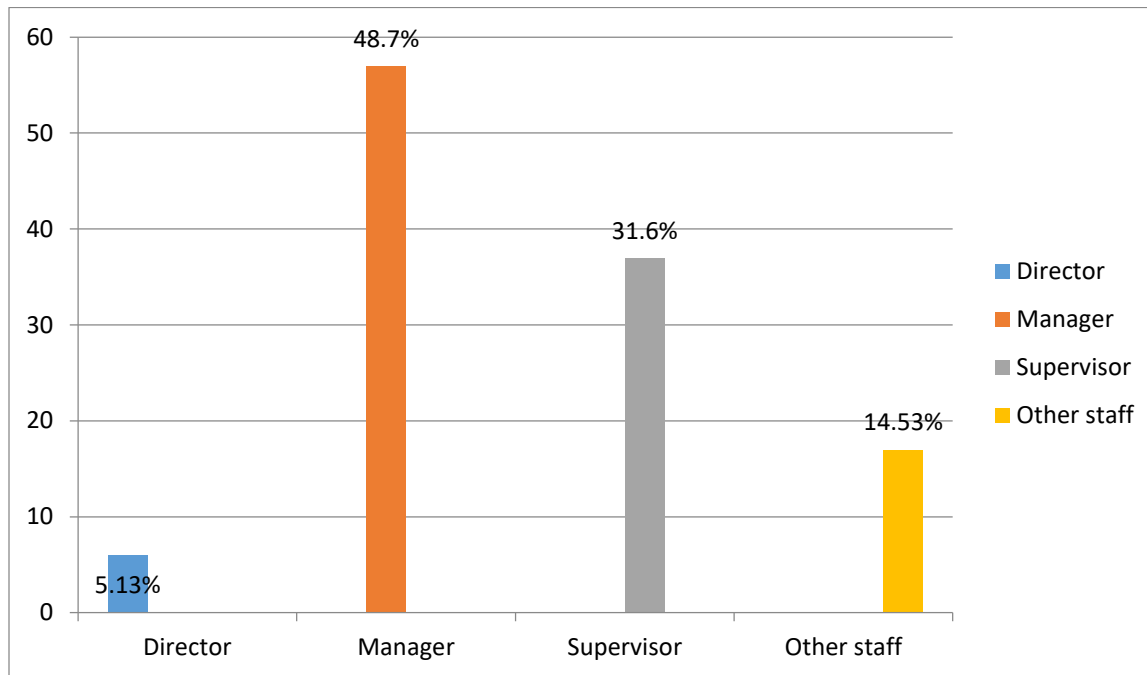
Pie chart 2 Educational qualification



Source: Primary Data 2021

As shown in pie chart 2, 13 of the respondents (11%) hold a certificate and 32(27.4%) they have diploma, majority 63 of the respondents (53.9%) they are graduated. finally, rest of respondents 7 (6%) master holder none of them have PHD and 2 respondents (1.7%) other education qualification. this shows that most of the respondents have good academic background. This also shows employees attached great importance to their education and professional development and also provide trustable and reliable information since they are said to have been able to read, interpret and understand the questionnaire.

## Column 2 Occupation of the respondents



**Source: Primary Data 2021**

In regard to the respondents' occupation, results in the above shows that majority 48.7% were managers, 31.6% were supervisor, 14.53% were other staff of manufacturing firms and 5.13% were director. The above representations of respondents imply that a good validity index of the data generated since a big number were persons were more awareness about corporate social responsibility.

### **4.2. Descriptive Statices of The Data**

In order to see the general perception of the rsepondant regarding impact of corporate social responsibility on profitability of firm's in the case of selected manufacturing companies in north shewa zone.the resacrech has summarized the result on mean standard deviation using 5 pont likert scale.the 5-point with their respectively numeric value were:1 strongly diss agree : 2 Disagree: 3 Nutral: 4 Agree and 5 Strongly Agree

#### **4.2.1. The level of corporate social responsibility in the selected manufacturing firms of north shewa**

This was the first objective to be considered for this study on the independent variable. The researcher was seeking to find out the level of corporate social responsibility implemented in the selected manufacturing firms in north Shewa zone. To generate data, the researcher had to break

this objective into five questions in the categories of awareness of CSR, planning, implementation & monitoring of CRS, ownership of CSR by manufacturing firms and community members level of consumption of firm products and their social license in return as a way of giving back to the manufacturing firms. For data, refer to the table below;

**Table 4.1 Respondents views on the Level of corporate social responsibility in selected manufacturing firms of north Shewa**

| Level of corporate social responsibility in selected manufacturing firms of north shewa                              | N   | Mean  | Std. Deviation | T Statistics | Interpretation    | Rank |
|--|-----|-------|----------------|--------------|-------------------|------|
| Manufacturing firms take social responsibility as an integral part of their business                                 | 117 | 4.06  | .513           | 4.15         | Very Satisfactory | 1    |
| The local communities and manufacturing clients are aware of the corporate social responsibility influence           | 117 | 3.96  | .675           | 4.08         | Satisfactory      | 2    |
| Manufacturing firms in North Shewa zone, implement and monitor the success of social responsibility                  | 117 | 3.74  | .532           | 3.83         | Satisfactory      | 3    |
| Corporate social responsibility increases the community members level of consumption of manufacturing firms products | 117 | 3.61  | 1.098          | 3.81         | Satisfactory      | 4    |
| The performance of manufacturing firms is entirely dependent on the social license provided to manufacturing firms   | 117 | 3.39  | 1.058          | 3.59         | Satisfactory      | 5    |
| Average mean   | 117 | 3.752 |                |              | Satisfactory      |      |

Source: Primary Data 2021

Regarding the above table 4.1 Finding show most of the respondents (Mean=4.06) stated that commercial companies regard social responsibility as integral part of their business. Respondents number one believes and shows Agree result. The social responsibility of most firms is part of their plan.

In regard to the findings in the above table, Majority of the respondents (Mean=3.96) also agreed to the view that local communities and manufacturing clients are aware of the corporate social responsibility influence. This can be proved in the respondent's confessions in the paragraph above whether the community and corporate customers are aware of the manufacturing company social responsible. Basing on the findings in the table above, Majority of the respondents (Mean =3.74) agreed to the view that manufacturing firms in North Shewa Plan, implement and monitor the success of social responsibility. Respondents say that when companies set budget at the beginning of each year, including the social responsibility aspect, implement and monitor then and on the other some of manufacturing firms it helps the society by sponsoring and tapping the excess water for the local community.

About the view that corporate social responsibility increases the community member's level of consumption of manufacturing firms' products, the Majority respondents (Mean = 3.61) still agreed to this view. This implies that socially responsible firms do better than those that are not responsible to the communities around them. If this increased consumption means profitability, the researcher is still seeking to find out.

In regard to the findings in the above table, Majority of the respondents (Mean=3.39) Not sure to the view that the performance of manufacturing firms is entirely dependent on the social license provided to manufacturing firms. This can be evidenced by the respondent's the firms may not apply the necessary requirement set by government in order to protect environmental as well as social cost or the firms not disclose the issues with stake holder.

There was a strong bond between socially responsible and doing business all over the world. For businessmen to be able to exercise social power or gain economic benefits, their implementation of social responsibility activities would strongly link with the kind of benefits or social power they derive (Davis, 1960). According to Davis for Economic Development the existence of business organizations hypothesizes in their interest to satisfy the needs of society through Corporate Social Responsibility in the areas of job creation, economic growth and environmental conservation.



#### 4.2.2. Corporate ethical business practices and profitability

This was the second objective to be considered in this study by the researcher. The researcher developed a research question to establish the relationship between the ethical business practices and the profitability of the manufacturing firms. Under this, the researcher examined the influence of good ethical practices on profitability, fairness and right pricing, ethical marketing practices and the client respect by manufacturing firms as part of the ethical business practices in promoting client motivation and increasing the manufacturing sales. Below is the data generated from the respondents;

**Table 4.2: Shows the respondents views on the relationship between corporate ethical business practices and profitability**

| Corporate ethical business practices and profitability  | N   | Mean | Std. Deviation | T Statistics | Interpretation | Rank |
|---|-----|------|----------------|--------------|----------------|------|
| Good business ethical practices in the business attracts and influences consumer behavioral                     | 117 | 3.97 | .454           | 4.05         | Satisfactory   | 1    |
| Fairness and right pricing is a key component of sales improvement and profits in clients to buy more from them | 117 | 3.89 | 1.223          | 4.11         | Satisfactory   | 2    |
| Ethical marketing practices are key for client motivation thus influences sales volume                          | 117 | 3.88 | .721           | 4.01         | Satisfactory   | 3    |
| Fairness and right pricing is a key component of sales improvement and profits in a manufacturing firm          | 117 | 3.61 | 1.210          | 3.83         | Satisfactory   | 4    |
| Average mean  |     | 3.84 |                |              | Satisfactory   |      |

**Source: Primary Data 2021**

Based on the results in the table 4.2 The majority of the respondents (Mean = 3.97) satisfactory to the view that good business ethical practices in business attract and influences consumer behavior.

This ranked to be number one of the ethical issues presented to the respondents as being Agree. Manufacturing clients maintained that other businesses will have a large customer base while others are limping basically because of the ethical values employed by the businesses. This implies that ethical practices in the business need to be upheld if their sales are to improve.

Research also revealed that manufacturing firms in north Shewa have respect for their clients which influences clients to buy more from them by a slight majority of respondents satisfactory (Mean = 3.89) satisfactory with this view as it ranked the second.

When asked, he had this to say; On the ethical Marketing practices being key for client motivation and influencing sales volume, Majority of the respondents as indicated in table 4.2 above (Mean = 3.88) satisfactory with this view as it ranked the third among the ethical values often employed by manufacturing firms used to motivate and attract clients.

Research also revealed that timely advertising, involvement of the local people in marketing the products of the manufacturing is another way of being sociable to community and has a lot of influence on the sales volume. About the fairness and right pricing being a key component of sales improvement and increasing profits in the manufacturing, majority of the respondents (Mean =3.61) satisfactory with this view as it ranked the fourth.

CSR can be defined as the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll & Buchholtz, 2003). CSR is a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based. CSR is a means of discussing the extent of any obligations a business has to its immediate society; a way of proposing policy ideas on how those obligations can be met; as well as a tool by which the benefits to a business for meeting those obligations can be identified (CSR Guide). The ethics of any business is the foundation of corporate social responsibility. Jones and George (2006) stated that "a company's ethics are the result of differences in societal, organizational, occupational, and individual ethics. In turn, a company's ethics determine its stance or position on social responsibility" (p. 134). Ethics are associated with CSR and there is a need for professional codes that institutionalize business ethics and CSR. In addition, professional codes should therefore "be developed to represent the moral views of the public' and enforced to enhance individual behavior and prevent future misconduct" (Valentine & Fleischman, 2008, p. 663).

### 4.2.3. How the legal and economic responsibilities of the manufacturing firms translating into profits

This was another objective considered in this study by the researcher. Questions were put to the respondents to find out the relevance of the legal and economic responsibilities of the manufacturing firms on their profits. The researcher captured the respondent's views through questionnaires. Below are the respondent's views.

**Table 4.3: Presents the respondents views on the legal and economic responsibilities of the manufacturing firms translating into profits.**

| The legal and economic responsibilities of the manufacturing firms translate into profits.  | N   | Mean | Std. DV | t-statistics | Interpretation  | Rank |
|---|-----|------|---------|--------------|-----------------|------|
| There are no term and conditions or legal implication fixed on manufacturing firm's to be socially responsible  | 117 | 4.21 | .849    | 4.37         | V. Satisfactory | 1    |
| Manufacturing firm's practice affirmative action and equal opportunities employment practices to acquire community respect and a high competitive advantage         | 117 | 4.17 | .686    | 4.30         | V. Satisfactory | 2    |
| Manufacturing firms empower community groups economically to improve their capacity to buy their products   | 117 | 4.16 | .682    | 4.29         | V. Satisfactory | 3    |
| Manufacturing firms are risk insured when they support the local community since they get protected against theft of their property that would affect their profits | 117 | 4.11 | .717    | 4.24         | V. Satisfactory | 4    |
| Manufacturing firm's struggle to maintain their products quality to maximize sells and retain the clients.  | 117 | 3.96 | .687    | 4.08         | Satisfactory    | 5    |
| Average mean  | 117 | 4.12 |         |              | V.Satisfactory  |      |

Source: Primary Data 2021

Based on the results in the table 4.3 above, Majority of the respondents (4.21) Very satisfactory with the view that there are no terms and conditions or legal implications fixed on manufacturing firms to be socially responsible. This view ranked the 1<sup>st</sup> on the legal and economic responsibilities of manufacture firms. This implies that the decision to be socially responsible to the business stakeholders lies within the hands of the manufacturing firm. There are no legal implications attached to this other than strive to attract the attention of the manufacture clients.

Table 4.3 also presents majority of the respondents (Mean=4.17) Very satisfactory to the view that manufacturing firms practice affirmative action and equal opportunities employment for community respect and high competitive advantage as it was ranked the second the manufacturing firm takes into account the gender differences thus give chance to women first with a greater consideration of the community members to fill the available positions.

Asked if manufacturing firms empower community groups economically to improve their capacity to buy their products, a slight majority of the respondents (Mean=4.16) satisfactory. This however met a lot of resistance from the respondents as it ranked thrid among the views put to the respondents to examine the legal and economic responsibilities. While others appreciated the support of manufacturing firm's others claimed no economic boost is provided.

From the results in the table 4.3 above, majority of the respondents (Mean = 4.11) Very satisfactory to the view that manufacturing firms are risk insured by community members against property theft due to corporate social responsibility. This became the ranged at fourth. As though the majority did agree, a more substantial number of respondents agreed claiming that community members only mind benefiting but does assist manufacturing firms.

About manufacturing firms struggling to maintain their products quality to maximize sells and retain their clients, Majority respondents (Mean =3.96) satisfactory to this view as it was ranked in the last with satisfactory support. About this, respondents revealed that nearly all manufacturing firms treasure quality assurance as a tool for improving on their customer base and client satisfaction.

Carroll and Friedman agree on the maximization of firms' values as a core responsibility. They also advocate that such responsibility remains in-line with legal standards and therefore firms are not to engage in illegal activities. Carroll takes a firm's responsibilities further by talking about social responsibility. Under social responsibility, he outlines ethical and discretionary responsibilities. These are affectionately known as the "Should-Do's" and "Might-Do's" respectively (Zain, 2008). Demands that companies act in accordance with existing legislation and

regulatory requirements. The legal framework consequentially fosters society's ethical view and all companies attempting to be socially responsible are therefore required by society to follow the law. (Crane & Matten, 2004).

#### 4.2.4. The philanthropic responsibilities of manufacturing firms and profitability improvement

This was another objective considered in this research. The researcher had to put a set of questions to the respondents on whether the philanthropic responsibilities of manufacturing firms can improve its profitability. For data, refer to the table below.

**Table 4.4 The philanthropic responsibility of manufacturing firms**

| The philanthropic responsibilities of manufacturing firms  | N. Statistic | Mean Statistic | Std. Deviation Statistic | T-statistics | Interpretation | Rank |
|--|--------------|----------------|--------------------------|--------------|----------------|------|
| The contribution made by manufacturing firms are not appreciated by the local community and thus represent no impact   | 117          | 3.86           | 1.121                    | 4.07         | Satisfactory   | 1    |
| The charity contributions made by manufacturing firm's to community members improving on the reputation of the business thus make it legible to attract new customer | 117          | 3.68           | .752                     | 3.81         | Satisfactory   | 2    |
| It is an ethical value of manufacturing firm's to become socially responsible for their continuity or effective operational  | 117          | 3.65           | .903                     | 3.81         | Satisfactory   | 3    |
| Manufacturing firm's do not recover the money invested in environmental management since it's for the benefit of even the non-manufacturing clients                  | 117          | 3.38           | 1.680                    | 3.68         | Satisfactory   | 4    |
| Organization don't know the nature of influence corporate social responsibility would bring their business   | 117          | 3.32           | 1.357                    | 3.57         | Satisfactory   | 5    |
| Average mean   | 117          | 3.58           |                          |              | Satisfactory   |      |

## Source: Primary Data 2021

About local community members not appreciating the contributions made by manufacturing firms and the contributions in return not showing to be having any impact in the business was ranked the first as majority of the respondents (Mean =3.86) Satisfactory with this view as they claimed to be appreciating a citing the fact that benefits are communal making it difficult for individuals to go there and appreciate individually. This implies that the mode of appreciation by the manufacturing firms could be in terms of a positive change in their sales and profits but when they don't realize any profit, they feel community has not appreciated.

Results in the table 4.4 above show that the majority of the respondents (Mean =3.68) Satisfactory to the view that charity contributions made by manufacture firms to community members improve on the reputation of the business. This was ranked number two of the views presented on the philanthropic responsibilities of the manufacturing firm. Respondents revealed that community members are much impressed by the social contributions made to them by the manufacturing firms thus offer a lot of support to such organizations as they claimed having a reason enough to praise such organizations. , philanthropic responsibility was the expectation that businesses be good corporate citizens, actively engaging in programs to promote human welfare and goodwill's (Carroll, 1991).

The findings in the table 4.4 above show that majority of the respondents (Mean = 3.65), Satisfactory to the view that It is an ethical value of manufacturing firm's to become socially responsible for their continuity or effective operational. This implies that manufacturing firms countinty of social responsibility impact on profitability of the companies.

Results in the table 4.4 above show that majority of the respondents (Mean = 3.38), agreed to the view that manufacturing firms do not recover the money invested in environmental management since it benefits the non manufacturing clients. This was ranked the fourth as manufacturing clients claimed a lot of support and responsiveness coming as a result of community members rewarding the business good will.

Basing on the results in the table 4.5 above, Majority respondents (Mean = 3.32) when asked agreed with the view that organizations do not know the nature of influence corporate social responsibility would bring to their businesses as many claimed that these organizations lack a

helping spirit and others want to maintain the profits they earn despite the knowledge on influence the CSR would cause to them as business. This means that being socially responsible to the community members and other business stakeholders does necessarily mean an organization is aware.

A considerable amount of research effort has been directed towards identifying the positive impact of CSR initiatives on customers. Matten and Moon (2004) underline the centrality of the ethical and philanthropically areas of responsibility to the study of CSR because of the differentiation they allow to establish between voluntary corporate behavior and mere compliance. The CSR debate has focused on the moral and philanthropic responsibilities, giving little attention to economic and legal responsibilities.

Schwartz and Carroll (2008) develop a three-domain approach, in which they propose the assumption of the philanthropic or discretionary component under the ethical and/or economic components. The reasons for such proposal are related, on the one hand, to the difficulty in distinguishing between philanthropic and ethical activities on both the theoretical and practical levels, and, on the other hand, to the observation that philanthropic activities are often explained by underlying economic interests.

**4.2.5. The level of profitability in the selected manufacturing firms**

The researcher also examined the level of profitability of the manufacturing firms through the questionnaire. A set of questions to examine the level of capital investments, returns on investments, the rate of debt clearance, the income levels and the business expansion and the nature of support from community members. For data on the above, the table below has the details.

**Table 4.5 Represents the respondent’s views on the level of profitability**

| Level of profitability (DV)   | N   | Mean | Std. Deviation | T-Statistics | interpretation | Rank |
|---|-----|------|----------------|--------------|----------------|------|
| No Manufacturing firm's invests it's capital without expected profits | 117 | 4.25 | .808           | 4.4          | Very high      | 1    |

|  |     |      |       |      |           |    |
|--|-----|------|-------|------|-----------|----|
| Social responsibility reduces tax on the profits earned as socially responsible manufacturing firm's pay less taxes                                | 117 | 4.17 | 1.069 | 4.37 | Very high | 2  |
| Socially responsible firm's get a lot of profits   | 117 | 4.13 | 1.013 | 4.31 | Very high | 3  |
| There is a high return on investment in manufacturing firms that are socially responsible  | 117 | 4.09 | 1.284 | 4.32 | Very high | 4  |
| Manufacturing companies that respond to the need of their client have a wider market than those that are not socially responsible                  | 117 | 4.00 | 1.320 | 4.24 | High      | 5  |
| Profitability in manufacturing firm's is taking an upward trend as a result of social responsibility   | 117 | 3.89 | 1.090 | 4.09 | High      | 6  |
| There is an increase in the level of returns on equity of the manufacturing firm's   | 117 | 3.64 | 1.054 | 3.83 | High      | 7  |
| The community members only pay or transact with business that are socially responsible to their needs  | 117 | 3.56 | 1.078 | 3.76 | High      | 8  |
| The productivity and market performance of manufacturing firm's is entirely dependent on their social responsibility                               | 117 | 3.46 | 1.186 | 3.68 | Low       | 9  |
| There are companies that don't support communities but perform better in terms of profits and has larger client base than the socially responsible | 117 | 3.07 | .971  | 3.25 | Low       | 10 |
| Average mean   | 117 | 3.5  |       |      | High      |    |

**Source: Primary Data 2021**

Based on the results in the Table 4.5, Majority respondents (Mean = 4.25) strongly agreed with the view that no manufacturing firm invests its capital without expecting profits and indication that as long as manufacturing firms continue investing in corporate social responsibility, public will perceive that there is an attachment of profits. This with evidence that most organizations in this research consent to being sociable to their clients, employees and the communities around them, then corporate social responsibility is profitable.

In a similar view, Majority of the respondents (Mean = 4.17) strongly agreed and ranked number two the view that social responsibility reduces taxes on the profits earned as socially responsible manufacturing firms pay less taxes. This could even mean that some manufacturing firms have



become socially responsible to its stakeholders to protect themselves against taxes as most of their contributions are inflated. This leaves the profit margin of the manufacturing firms intact if the findings are to be taken serious.

Similarly, the respondents also had the majority (Mean =4.13) strongly agreed to the view that socially responsible firms get a lot of profits though some other respondents could fully confirm to this view. The respondents said that even when the socially responsible manufacturing firms indicate having profits, it still simple to measure the magnitude of the profitability of the firm.

Based on the above results in the table 4.5, a big number of respondents (Mean =4.09) ) strongly agreed to the view that there are high returns on investments in manufacturing firms that are socially responsible. In this indicates that manufacturing firms invest in the interest of increasing their returns thus for any social responsibility aspect in the business, the motivation is the profitability whether in Kind or cash.

The table of findings still indicate a big number of respondents (Mean = 4.00) agreeing to the view that manufacturing firms' responsiveness to clients needs offers a wider market than those that careless about clients needs. This could be due to the fact that businesses use corporate social responsibility as a means of advertising their products.

The results in table 4.5 further indicate that majority of the respondents (Mean = 3.89) Agreed that Profitability in manufacturing firms is taking an upward trend as a result of social responsibility. This could be due to the increase in the number of new clients who also buy from socially responsible manufacturing firms as a result of the services they enjoy from these firms. This became the respondents' views meaning that social responsibility of manufacturing firms has a direct satisfactorily positive influence on profitability.

About an increase in the level of returns on equity of the manufacturing firms, the results reveal that the majority of the respondents agree (Mean =3.64) thus interpreted to be high on claims that manufacturing firms use the returns on equity to consolidate its position as one of the influential and ethical manufacturing firms as this the respondents to measure the level of profitability.

The respondents provided a similar view as the bigger number of them (Mean =3.56) agreed to the view that the community members only transact with businesses that are socially responsible to their needs. The members revealed that it is becomes had to assess if they are the socially responsible firms that transact with clients of particular individuals.

About the productivity and market performance of manufacturing firms being dependent entirely on corporate social responsibility, the majority of the respondents (Mean = 3.46) agreed to this view as most of the claimed that social responsibility does determine the market performance as they noted that fair prices, quality of the products and an ethical approach to clients motivate the customers and influence their choice of service providers on the market.

In the ranking of the table 4.5 above, the view had the majority of the respondents (Mean = 3.07) in disagreement with the view that there are manufacturing firms that don't support communities but perform better than those that are socially responsible. Respondents revealed that even when socially responsible manufacturing firms do not attract all the support, communities prefer supporting socially responsible manufacturing firms to those that are not social. They claimed that businesses that do not value their clients are often abandoned by the customers and try to deal with those that offer the best customer care.

This economic success is determined by the magnitude of the net profit (Pimentel, Braga & Casa Nova, 2015). To achieve an appropriate return over the amount of risk accepted by the shareholders, is the main objective of firms operating in capitalist economies. Profitability is considered as one of the most important studied indicators of the strategic value of CSR (Orlitzki, Schmidt, & Rynes, 2003). Researchers have started the empirical study of CSR and profitability several decades ago in western countries. Many firms have been faced with increasing pressure for corporate accountability from their stakeholders (managers, employees, customer, government, shareholders, and so on) (Waddock, 2004).

This pressure includes aspects such as legal, social, moral, and financial aspects. Profitability in this context implies financial performance. However, result of existing researches on CSR and its relationship with financial performance, are inconclusive. Results of some studies showed a positive relationship between CSR and profitability, on the other hand some concluded that a negative relationship exists while some gave a non-significant relationship.

### **4.3. Correlation Analysis**

Correlation measures the degree of linear association between variables. Values of the correlation coefficient are always ranged between +1 and -1. A correlation coefficient of +1 indicates that the

existence of a perfect positive association between the two variables, while a correlation coefficient of -1 indicates perfect negative association. A correlation coefficient of zero, on the other hand, indicates the absence of relationship (association) between two variables (Brooks, 2008). The table below shows the correlation among dependent and independent variables.

#### 4.3.1. The relationship between corporate social responsibility & profitability of manufacturing firms in the north shewa zone

The last objective of this study was to establish whether there is a significant relationship between corporate social responsibility and profitability in the selected manufacturing firms of north Shewa zone, to generate data on this, the researcher set wither there is a significant relationship between corporate social responsibility and profitability of the selected manufacturing firms in the north Shewa zone.

To Test this relation, the researcher correlated the mean of corporate social responsibility and profitability of the manufacturing firms using the bivariate Spearman' Two-tailed correlation coefficient as indicated in the table 4.6 below;

**Table 4.6, Presents the relationship between corporate social responsibility and profitability of manufacturing firms in the north shewa zone.**

| Correlations                    |                         |                                 |               |
|---------------------------------|-------------------------|---------------------------------|---------------|
|                                 |                         | Corporate social responsibility | profitability |
| Corporate social responsibility | Correlation Coefficient | 1.000                           | .895**        |
|                                 | Sig. (2-tailed)         | .                               | .000          |
|                                 | N                       | 117                             | 117           |
|                                 | Spearman's rho          |                                 |               |
| profitability                   | Correlation Coefficient | .895**                          | 1.000         |
|                                 | Sig. (2-tailed)         | .000                            | .             |
|                                 | N                       | 117                             | 117           |

**Source: SPSS**

The results from the table above indicate that there is a very significant Positive relationship

between the corporate social responsibility and profitability of the manufacturing firms. The correlation between the two variables is ( $r = 0.895$ ,  $P = 0.000$ ). The interpretation of the above is that there is a highly significant correlation. This implies that corporate social responsibility improves profitability.

#### 4.4. Regression Analysis

To test for the regression analysis, the researcher used the linear regression coefficient with the R-square data statistics. This was presented with clear reflection of the model summary, the ANOVA and the coefficients both the unstandardized and the standardized. For data, the following table can be referred to.

**Table 4.7; Shows the regression analysis between corporate social responsibility and profitability of selected manufacturing firms in north shewa zone**

##### Model Summary

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .906 <sup>a</sup> | .820     | .819              | .549                       |

a. Predictors: (Constant), Corporate social responsibility

##### ANOVA

|            | Sum of Squares | df  | Mean Square | F       | Sig.              |
|------------|----------------|-----|-------------|---------|-------------------|
| Regression | 157.931        | 1   | 157.931     | 524.498 | .000 <sup>b</sup> |
| 1 Residual | 34.628         | 115 | .301        |         |                   |
| Total      | 192.559        | 116 |             |         |                   |

##### Coefficients<sup>a</sup>

| Model | Unstandardized Coefficients |            | Standardized Coefficients | t | Sig. |
|-------|-----------------------------|------------|---------------------------|---|------|
|       | B                           | Std. Error | Beta                      |   |      |
|       |                             |            |                           |   |      |

|   |                                 |      |      |      |        |      |
|---|---------------------------------|------|------|------|--------|------|
|   | (Constant)                      | .659 | .162 |      | 4.067  | .000 |
| 1 | Corporate social responsibility | .867 | .038 | .906 | 22.902 | .000 |

a. Dependent Variable: profitability

**Source: SPSS Analyzed Data, 2021**

In regard to the linear regression results in the table 4.7 above, the model fit (“ANOVA”) shows the goodness of fit of the model in analyzing this research with Sig. 0.000\*\* because the lower the number below 0.05, the better the fit. Therefore, we conclude that our model was fit for data analysis. The results of the regression analysis indicate a very significant and positive relationship between corporate social responsibility and the relationship is significant at 95%

The results indicate all the items under analysis in corporate social responsibility being accountable for the profitability of manufacturing firms ( $R^2 = 0.820$ ). "R-Square 0.820" implies that the dependence of profitability on the constant (CSR) was explained at 82.0% in this research.

The findings in the co-efficient section also indicate that the value of significance being less than 0.05 we can only assert that the veracity of the value in “B” with a 95% level of confidence are reliable. This implies that if corporate social responsibility is improved by any small proportion by a manufacturing firm, the profitability increases by 0.895 meaning if “Sig” was above 0.1, then the estimate in “B” would be unreliable and would be regarded not to be statistically significant. This therefore implies that the confidence intervals provide a range of values within which we can assert with a 95% level of confidence that the estimated 95% level of confidence.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSION AND RECOMMEDATION

#### 5.1. Introduction

This chapter presents a summary of major findings, conclusions, recommendations and areas of further research.

#### 5.2. Summary of Findings

From the findings of the research, majority of the respondents fell in the category of 36-45years as compared to other categories with the males being more than females and mostly married. Also, the study showed that majority of the respondents possessed a Bachelor's Degree and majority of the respondents occupation fall under managers. The above guarantee the credibility of the data because the respondents involved have a great level of understanding the research questions put to them.

##### 5.2.1. Level of corporate social responsibility

Data analysis using mean and the standard deviation (Std. D) showed that the overall average mean of the level of corporate social responsibility was (3.78) interpreted as satisfactory. The Items under this variable construct were ranked from the highest to the lowest. The construct views that scored the highest mean were; manufacturing firms take social responsibility as an integral part of their businesses (4.06), the local communities and manufacturing clients are aware of the corporate social responsibility influence (3.96), manufacturing firms in north shewa zone, implement and monitor the success of social responsibility (3.74), The community members have increased their levels of consumption as a result of the manufacturing firms being responsive to their economic status (3.61), the performance of manufacturing firms is entirely dependent on the social license provided to manufacturing firms (3.39).

The findings in this study show a direct linkage to the views by the various writers most notably Godkin and Valentine (2009) who argue that business leaders should consider using the social performance as a mechanism for creating a corporate environment that encourages ethical reasoning justifying the need for planning and budgeting for activities to create a business friendly environment that was further complement the profitability of the manufacturing firm. This strikes a balance between the literature and the findings to qualify the research to have achieved its objective.

### **5.2.2. The Role of Corporate Ethical Business Practices on Profitability of Manufacturing Firms**

In regard to the data in chapter four above, corporate ethical business practices plays an important role in the profitability of the selected manufacturing firms as indicated by the satisfactory average mean and standard deviation of 3.84 as highlighted meaning that the many of the respondents could agree on all issues as though. Good business ethical practices in business attract and influences consumer behavior (3.97), Fairness and right pricing are a key component of sales improvement and profits in a manufacturing firm (3.89), Ethical Marketing practices are key for client motivation and influences sales volume (3.88) were all supported and became a measure for the strength of the ethical business practices in checking the profitability of manufacturing firms.

The respondents however noted that there are some manufacturing firms in north shewa that do not have respect for their clients which influences clients behavior on consumption as indicated by the mean of 3.61. These findings complement the relevant literatures by Yisau Babalola (2012) that reveals that, good ethics, on the other hand, can be quite beneficial as he claimed that at the very least, an ethical culture reduces the high-pressure, non-communicative, highly politicized work environments that can exist. But at its best, ethical cultures lead to employee satisfaction, which fuels profitability. However some disagreement appear in the findings presented here with Jones and George (2006) who argue that social responsibility revolves around the ethics of any organization showing that the internal stakeholders act ethically internally and externally with respect to clients to protect the reputation of the company and earn a profit for the organization to continue.

### **5.2.3. Corporate legal and economic responsibility of Manufacturing firms and profitability**

From the presented data, the researcher found out mixed reactions on the legal and economic responsibilities of the manufacturing firm transforming into profits as respondents in an average mean of 4.12 majorities of the respondents strongly agreed on the variables measured.

In the views that there are no term and conditions or legal implication fixed on manufacturing firm's to be socially responsible (4.21), manufacturing firm's practice affirmative action and equal opportunities employment practices to acquire community respect and a high competitive advantage(4.17), manufacturing firms empower community groups economically to improve their capacity to buy their products (4.16), manufacturing firms are risk insured when they support the local community since they get protected against theft of their property that would affect their

profits (4.11) and manufacturing firm's struggle to maintain their products quality to maximize sells and retain the clients. (3.96).

Judging the findings as based on the verdict by Crane & Matten (2004) who sites out that economic responsibility for example in the US is strongly focused on profitability and returns to shareholders, while companies in continental Europe tend to define this contribution much more widely. As he feels the latter could also be said of African companies. Similar literature also complements the above as Christiana Monescu (2010) from her thesis the “the economic implications of CSR and responsible investment” argued that “that CSR activities do not generally have a negative effect on profitability, but that in the few cases where they have a positive effect, this effect is rather and conclusion on her study that all the economic and social support given to communities make the organization more weaker financially because they reduce the profit margin of the firms.” This meant that the manufacturing firm’s economic and legal responsibilities are still a threat to the profitability of the manufacturing firms. The mixed feelings identified in the ethical business practice assessment in the research could mean dissatisfaction.

#### **5.2.4. The relevance of the Philanthropic responsibilities of a manufacturing firm to its profits**

In regard to the data in chapter four above, the researcher found out that the philanthropic responsibilities of a manufacturing firm does not translate directly into profits as most respondents agreed to the variable constructs put to the respondents with an average mean of 3.58 but that is unsatisfactory to the researcher.

The respondents are said to believe though that the contribution made by the manufacturing firms are not appreciated by the local community and thus represent no impact (3.86), the charity contributions made by manufacturing firm's to community members improving on the reputation of the manufacturing thus make it legible to attract new customer (3.68), It is an ethical value of manufacturing firm's to become socially responsible for their continuity or effective operational (3.65), manufacturing firm's do not recover the money invested in environmental management since it’s for the benefit of even the non-manufacturing clients (3.38) and organization don't know the nature of influence corporate social responsibility would bring their business (3.32) implying that manufacturing firms can only perform its philanthropic responsibilities to improve their reputation which in a long run may translate into profits.



The findings in this research agree directly with the literatures studies by the Economic intelligence unit (2008) that all discredit the efforts of organizations not being relevant to the profits they gain in return as evidenced by the lamentation that “that companies and manufacturing firms are more less misplacing their resources in CSR”.

Vogel David (2008) in the literature however disagree in the literature with the findings revealing that companies and manufacturing firms are more less misplacing their resources in corporate social responsibility as stated that the belief that corporate responsibility “pays” is a seductive one arguing that no one would not want to live in a world in which corporate virtue is rewarded and corporate irresponsibility punished.

The findings further dispute Vogels’ arguments with majority respondents handing credit to the social responsiveness in enhancing profitability as though it was generally agreed that one can certainly find examples of firms with superior Corporate Social Responsibility performance that have done well, as well as firms with poor CSR reputations that have performed well too.

The literature by Brookings (2005) strike a balance with the findings that We also will The implication in this is that further sensitization may need to be extended to business stakeholders to mend a harmonized trend in which all people are going to witness the value of investing in CSR than making constant wrong investment in it.

### **5.2.5. Level of Profitability**

In regard to the level of profitability in the selected manufacturing firms, the researcher established a satisfactory level of profitability variable with an average mean of 3.5. This meant that majority of the respondents agreed to most views put to the respondents for study. This could be evidenced by the fact that no manufacturing firm's invests it's capital without expected profits (4.25), social responsibility reduces tax on the profits earned as socially responsible manufacturing firm's pay less taxes (4.17), socially responsible firm's get a lot of profits (4.13), There is a high return on investment in manufacturing firms that are socially responsible (4.09 manufacturing companies that respond to the need of their client have a wider market than those that are not socially responsible (4.00), profitability in manufacturing firm's is taking an upward trend as a result of social responsibility (3.89) and There is an increase in the level of returns on equity of the manufacturing firm's (3.64) .

Despite a bigger support of the profitability level being satisfactory, research findings indicate that the community members only pay or transact with business that are socially responsible to their needs (3.56) as the majority of the respondents disagreed to this view. Also disagreed to were the views that the productivity and market performance of manufacturing firm's is entirely dependent on their social responsibility (3.46) and there are companies that don't support communities but perform better in terms of profits and has larger client base than the socially responsible (3.07) claiming that as though communities don't seem to be very much minding their choice of who to serve them in the market, they sometimes in form of appreciation want to extend their appreciation inform of transacting with socially responsible people.

### **5.2.6. The relationship between corporate social responsibility and Profitability**

The study results shows the mean of the constructs and views on corporate social responsibility correlated with the mean on the level of profitability ( $r = 0.895$ ,  $\text{Sig.} = 0.000$ ) giving a very positive strong relationship an implication that the prevalence of corporate social responsibility in a manufacturing firm is directly responsible for manufacturing firms' profit improvement.

The regression analysis showed that a very significant relationship ( $\text{Sig. } 0.000^{**}$ ) between corporate social responsibility and profitability with a 99% level of significance given the "Adjusted R-Square" that shows 81.9% of the variance accountable for profitability with "R-Square 0.820" that reveal the dependence of profitability on the constant (CSR) explained at 82.0% in this research. The coefficient level of this relationship there give a confidence level of the results being 95% an indication that despite the disagreements to some of the variable constructs and views, corporate social responsibility positively influences on the level of profitability in the manufacturing firms.

### **5.3. Conclusions**

Based on the general objective of the study, the researcher presents the conclusions on this research study as given bellow;

The gender, age, education background and the occupation of the respondents were well examined and the face sheet proved to be the right tool to check for these characteristics. The majority of the respondents fall in the category of 36- 45 years by age, male. Also the education level of the respondents is high with people at degree and Diploma levels dominating the research. This

research was a success because it had most of its respondents as manager and supervisor meaning the data presented is true of the exact facts and experience in the representative manufacturing firms of north Shewa as a whole thus rightly concluding that the research was adequately conducted.

Corporate social responsibility as the constant in this research study is highly implemented in the manufacturing firms as though most of the organizations seem not to be fully in control of its impacts on the profitability of the manufacturing firms since it is planned, implemented and monitored. It would heavily impact on the profits of the manufacturing firms if community members were fully made aware of why it is done as it would increase the client's level of consumption.

About the corporate ethical business practices, manufacturing firms have a responsibility of exhibiting ethical values because their life span is revealed to be blended on them as most of them was experience a high stock turnover rate if they have a fair and right pricing, treat their employees is the most appropriate way, use the right marketing strategies and exhibit respect for their clients. This was directly impact of their profit performance as well change the consumer behavior.

In regard to the legal and economic responsibilities of manufacturing firms, no conditions can be forced to support its stakeholders but the values attached to the assistance however little it could be makes a difference. The social protection termed as the social license offers the genuine reason as to why there is need for these manufacturing firms to be responsive to community needs. There are women groups that need support and can become a potential market or even suppliers Debre Berhan wood processing factory support poor women giving the by product without payment .

For the philanthropic responsibilities according to this research, there isn't any direct profit as Vogel puts it but manufacturing firms make for themselves the reputation required for any manufacturing firm to be called high profile service and products provider. This is no doubt was motivate the market to pay back to the business owner in terms of improved sales as it was boost the competitive advantage.

The level of profitability of the selected manufacturing firms was found satisfactory indicating that the businesses are reaping much from the corporate social responsibility and are only required to guard against back sliding though much effort seem to still be lacking to tie the success together. Profitability being the major reason why manufacturing firms get established, manufacturing firms can do everything to have all ends meet if they are guaranteed of profits thus more is still required to sustain.

Significantly and satisfactorily, the relationship exists between corporate social responsibility and profitability as the profits of the business entirely depends on how the particular manufacturing firm plays its cards with its clients to sustain them and continue increasing or adding on the existing clients for the profits to remain sustainable. To this impact, based on the various examined tenets of this research, the relationship between corporate social responsibility and profitability present a positive result and declare all the study objectives a success.

#### **5.4. Validation of The Theory**

This relational theory that has a root from the complex firm-environment relationships and its correlation to utilitarian and managerial theories as developed by Garriga and Mele's (2004) was proven in relation to making analysis of stakeholder approach as supported by the work of Mitchel, Agle and Wood (1997).

#### **5.5. Conclusion on The Theory**

The researcher provides a conclusion that further strengthened by another not-so-distant conceptualization about social responsibility theories be grouped into instrumental, political, integrative and value based with the Instrumental theory having its focus on achieving economic objectives through social activities, political focuses on a responsible use of business power in the political arena and integrative concentrating on drawing together management issues, public responsibility, stakeholder management, corporate social performance; and ethical practices to emphasize strategies for achieving a good society.

#### **5.6. Contribution To Existing Knowledge**

A great linkage is established between corporate social responsibility and the profitability of manufacturing firms as though neither of the business stakeholders understand better the loopholes therein. Academicians now have a food for thought for further establishment of these gaps to consolidate the efforts of the researcher and put right the gaps in corporate social responsibility.

In a similar perspective basing myself on the results from these manufacturing firms, the improvement and effective management of the work force has a direct influence on the productivity levels of the organization. This is a direct impact of the effective motivation accrued from the care and improvement of the staff well-being.

In summing up my findings therefore, manufacturing in north shewa as a whole need to take up corporate social responsibility not only for the direct cash benefits but also to seek social protection and gaining the competitive advantage over the other firms in which they are producing similar products to win the market and building a reputable environment from the public if they must be sustainable in a long run.

With my findings, having conducted a research that had never been conducted on the manufacturing firms of north shewa, the generated information if used well by the large manufacturing firms, Clarence (2014) has created a literature on which firms was ably rely to rally the community members accepting their business, motivating their staff and creating an enabling environment which in totality influence profitability..

## **5.7. Recommendations**

Forther enhancement and sustainability of the relationship between corporate social responsibility and profitability of the manufacturing firms in north shewa as a whole the researcher recommends the various business and community stakeholder that:

### **a) Manufacturing firms**

For manufacturing firms, the researcher recommends them to take a thorough interest in the corporate social responsibilities of their firms and try to match them with the reputation, competitive advantage they have over others whom they offer similar product. It is important to refocus, re-plan, re-affirm to the needs of the manufacturing clients, motivate the workforce, monitor and evaluate the manufacturing product for business continuity.

### **b) Manufacturing clients/ community members**

Manufacturing clients/community members should take a responsibility of being responsive to the corporately responsible and ethically organized manufacturing firms. They require giving back to these companies in raising their consumptions for further reinvestment.

### **c) Government**

The government has a role of reducing on taxes for the socially responsible manufacturing firms raise much funds to invest in the improvement of the well fare of the community members so that the few which are not socially responsible can also be motivated to get involved in assisting the local people.

## 5.8. Areas For Further Research

Based on the gaps identified in the literatures used, the researcher encourages and motivates the prospective researchers to conduct further research corporate social responsibility with emphasis on the following areas;

- The effectiveness of the corporate social responsibility in improving the welfare of the community members in north shewa as well as Ethiopian manufacturing firms in order to health the growth of industrialization
- The role of government in promoting corporate social responsibility among small scale manufacturing firms.
- The level of community responsiveness to the socially responsible manufacturing enterprises of Ethiopian.
- The influence of ethical business values and practices on capital investment and business returns.

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**APPENDIX**  
**DEBRE BERHAN UNIVERSITY**  
**SCHOOL OF POSTGRADUATE STUDIES**  
**MASTERS OF SCIENCE IN ACCOUNTING AND FINANCE**  
**RESEARCH QUESTIONNAIRE**

Dear Respondent,

My name is Mesfin Wubshet. I am a Masters student at **Debre Berhan University, Debre Berhan Ethiopia**, and I am currently writing a thesis on “The Impact of Corporate Social Responsibility on Profitability of Firms (The case of selected manufacturing companies in north Shewa zone)” for my MSc. The purpose of this research is to explore the impact of corporate social responsibility on profitability of firms the case of selected manufacturing companies in north Shewa zone.

This questionnaire is crafted to collect data on The Impact of Corporate Social Responsibility on Profitability of Firms, The Case of Selected Manufacturing Companies in North Shewa Zone. The data to be collected through the questionnaire is highly valuable to meet the objectives of this study. Please answer all the questions provided. Your answer to these questions will only be use for scientific research purposes and will be strictly kept confidential.

The success of this study will substantially depend on your willingness and co-operation to provide the information required. Please accept in advance my best wishes and appreciation for your cooperation and attention.

Yours faithfully,

Mesfin Wubshet

Email;mesfinwub@gmail.com

**General Instruction**

- ✓ Please tick (✓) on one appropriate box or number that best suits your perspective for each statement.
- ✓ There is no need of writing your name
- ✓ Participation is completely voluntary.
- ✓ In all case where answers options are available, please make tick in appropriate box or number.

**PART I: Demographic information or General information**

This section of the questionnaires refers to general information about the respondents. The information will allow me to compare groups of respondent.

1. Gender      Female                                      Male
2. Age (in years)      Below 25                                      25-35  
  
                                  36-45                                      Above 45
3.      Educational Qualification
- Certificate                                   Diploma                                   BA Degree
- Master's Degree                                   PHD
- Other
4. Occupation of the respondent
- Director                                      Manager
- Supervisor                                      Other staff

**PART II: Independent Variable (CSR)**

Use the following Rating Scales under the columns, mark (√) sign only once for the given variables depending on your level of agreement in front of it.

Where,

*1=Strongly Disagree 2=Disagree 3= Not Sure 4=Agree 5=Strongly agree*

| <b>#1. corporate social responsibility</b>   | <b>Rating</b> |          |          |          |          |
|--|---------------|----------|----------|----------|----------|
|  | <b>1</b>      | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 1. Manufacturing firms take social responsibility as an integral part of their business.   |               |          |          |          |          |
| 2. Manufacturing firms in north Shewa zone, implement and monitor the success of social responsibility.  |               |          |          |          |          |
| 3. The performance of manufacturing firms is entirely dependent on the social license provided to business firms.                                |               |          |          |          |          |
| 4. The community members have increased their levels of consumption as a result of the business firms being responsive to their economic status. |               |          |          |          |          |
| 5. The local communities and business clients are aware of the corporate social responsibility of the Manufacturing firms.                       |               |          |          |          |          |

| <b>#2. Ethical Business practices</b>   | <b>Rating</b> |          |          |          |          |
|---|---------------|----------|----------|----------|----------|
|   | <b>1</b>      | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| 6. Good business ethical practices in the business attracts and influences consumer behavior. |               |          |          |          |          |

|   |  |  |  |  |  |
|---|--|--|--|--|--|
| 7. Ethical Marketing practices are key for client motivation thus influences sales volume.                          |  |  |  |  |  |
| 8. Fairness and right pricing is a key component of sales improvement and profits in a manufacturing firm.          |  |  |  |  |  |
| 9. Fairness and right pricing is a key component of sales improvement and profits in clients to buy more from them. |  |  |  |  |  |

| #3. Legal and economic responsibilities of the manufacturing firms   | Rating |   |   |   |   |
|--|--------|---|---|---|---|
|  | 1      | 2 | 3 | 4 | 5 |
| 10. Manufacturing firms are risk insured when they support the local community since they get protected against theft of their property that would affect their profits. |        |   |   |   |   |
| 11. Manufacturing firms empower community groups economically to improve their capacity to buy their products.   |        |   |   |   |   |
| 12. Manufacturing firm’s practice affirmative action and equal opportunities employment practices to acquire community respect and a high competitive advantage.         |        |   |   |   |   |
| 13. Manufacturing firms struggle to maintain their products quality to maximize sells and retain the clients.  |        |   |   |   |   |
| 14. There are no terms and conditions or legal implications fixed on business firms to be socially responsible ?   |        |   |   |   |   |

| #4. The philanthropic responsibilities of manufacturing firms | Rating |   |   |   |   |
|---|--------|---|---|---|---|
|   | 1      | 2 | 3 | 4 | 5 |
|   |        |   |   |   |   |



|   |  |  |  |  |  |
|---|--|--|--|--|--|
| 15. Manufacturing firms do not recover the money invested in environmental management since it is for the benefit of even the non-business clients.                     |  |  |  |  |  |
| 16. The charity contributions made by manufacturing firms to community members improve on the reputation of the business thus make it legible to attract new customers. |  |  |  |  |  |
| 17. The contributions made by the manufacturing firms are not appreciated by the local community and thus represent no impact.  |  |  |  |  |  |
| 18. Organizations don't know the nature of influence corporate social responsibility would bring in their business.   |  |  |  |  |  |
| 19. It is an ethical Value of manufacturing firms to become socially responsible for their continuity or effective operation.   |  |  |  |  |  |

**PART III: Dependent Variable (Profitability)**

| #1. Profitability   | Rating |   |   |   |   |
|---|--------|---|---|---|---|
|   | 1      | 2 | 3 | 4 | 5 |
| 1. No manufacturing firms invests its capital without expecting profits   |        |   |   |   |   |
| 2. Socially responsible firms get a lot of profits.   |        |   |   |   |   |
| 3. There is a high return on investment in manufacturing firms that are socially responsible.                                     |        |   |   |   |   |
| 4. Social responsibility reduces taxes on the profits earned as socially responsible manufacturing firms pay less taxes.          |        |   |   |   |   |
| 5. Business companies that respond to the need of their clients have a wider market than those that are not socially responsible. |        |   |   |   |   |

|  |  |  |  |  |  |
|--|--|--|--|--|--|
| 6. The productivity and market performance of manufacturing firms is entirely dependent on their social responsibility.                                    |  |  |  |  |  |
| 7. There is an increase in the level of returns on equity of the manufacturing firms.  |  |  |  |  |  |
| 8. Profitability in manufacturing firms is taking an upward trend as a result of social responsibility.  |  |  |  |  |  |
| 9. The community members only pay or transact with business that are socially responsible to their needs.  |  |  |  |  |  |
| 10. There are companies that don't support communities but perform better in terms of profits and has a larger client base than the socially responsible . |  |  |  |  |  |

\*If you have any additional information

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**Thank You!!!**