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CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: EVIDENCE FROM THE ETHIOPIAN LEATHER INDUSTRY

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Abstract *Corporate Social Responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits to all stakeholders. The effect of corporate social responsibilities of a business on their financial performance has been a subject of intense argument and its empirical analysis result shows inconsistent findings. This study aims to examine the effects of CSR and the financial performance of Ethiopian leather industries. A theoretical framework is proposed based on a stakeholder approach by defining five stakeholders (i.e., employee, customer, supplier, community & environment) and taken as the independent variables. This study uses a questionnaire survey for the measurement of CSR and a three consecutive (2014–2016) years' average return on the asset enables us to measure firms' financial performance data, analyzed using a multiple regression models. Finally, this study reveals that a statistically significant positive effect of employee CSR, supplier CSR, environment CSR and aggregate CSR on financial performance whereas customer and community CSR factors are negatively related to return on asset.*

Keywords: *CSR, Stakeholder Approach, Leather Industry, Ethiopia*

INTRODUCTION

The issue of the CSR has been a subject of intense controversy and interest over the past three decades. In part, this debate is an outgrowth of the proliferation of different conceptualizations of the CSR. One of the first influential public figures to air his opinion in the matter was renowned economist and debater Friedman (1970) who stated that "the sole social responsibility of a business is oblige to the wills of its shareholders and increase its profits within the boundaries of laws and business ethics". Friedman (1970) further argues that firms should not center on CSR activities unless they act as a value creator and adhere to the wishes of the company's shareholders. Whereas, the stakeholder theory proposed by Freeman (1984) enlarges the focus of management beyond using the resources of the firms for the sole benefit of shareholders for using these resources to the benefits of a much wider group of stakeholders. This perspective is a paradigm shift from the neoclassical theory that focuses only on the corporate shareholders. Besides, (Cheng et al., 2014) also stated that Friedman's view is too focused on investors and argues that corporations have a social responsibility to their other stakeholders, even if such a responsibility entails a sacrifice in profits. In this regard for most major Ethiopian companies placed in CSR policies and understood as a strategic response to address reputational issues surrounding public concern over the social, environmental and economic responsibilities practices (Deyassa, 2016).

According to Bimir (2015), the Ethiopian leather industry has a certain involvement in the processes of being a socially responsible business sector. Because the steps in producing and tanning animal skins starting in the corral and ending at the sales counter as finished goods involve a long process that leaves its effects on individuals and communities. The industry sacrifices their resource in community welfare and environment thus preventing activities in terms of various community services, discussion with the community, supplying beneficial products for the society, and using a substitution for polluting and hazardous materials/parts. Moreover, the firms pay attention in the most important CSR practice regarding customer and supplier in terms of producing customer-oriented products, responding to customer complaints on time, supplying clear and accurate information to customers, and inspecting the supplier facilities for health, safety & environment aspects. Besides, the tanneries and leather products manufacturing units in operation, type of tanning processes and chemicals-employed storage of raw materials, volume, type and points of discharge, and condition of waste-receiving bodies are causing a serious threat to healthy society and environment.

Ethiopian government has also prioritized the growth of the manufacturing sector, as Growth and Transformation Plan II

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(GTP II) calls for an accelerated growth of the manufacturing sector than the rest of other sectors. Its contribution to GDP is targeted to grow from 4% to 8% by 2020 (MOFED, 2014). The leather and leather products, textile and garments, metal and engineering, and chemical and pharmaceutical manufacturing subsectors are identified as the main priority sectors to contribute substantially to the growth of the Manufacturing Sector. The Leather Sector presents many opportunities to the Ethiopian Economy ranging from employment generation, export earnings, contribution to government revenue and other multiplier contributions to the rest of the economy. The growth of the leather sector will contribute significantly to the transformation of the Ethiopian economy in the next five years.

The relationship between a firm's CSR and its financial performance has been the subject of a lively debate. An early example of such research is (McGuire et al., 1988) who examined the relationship between companies CSR activities and financial performance, assessed by both stock market returns and accounting-based measures. The researchers concluded that firms low in social responsibility experienced weaker financial performance whereas noting that low CSR performance could also expose such companies to risks to a larger extent than high performing firms. In recent years, several researchers have noted similar results regarding a positive relationship between CSR and financial performance such as (Murtaza et al., 2014) taken CSR as independent variable and is measured by the utilization of firms for the prosperity of public opinion and (Krishan, 2012) used multivariate correlations and cross-sectional methods. Variables involved in this study were the social responsibility towards stakeholders, financial and non-financial performance, and (Chen & Wang, 2011) viewed companies CSR based on stakeholders theory and data were obtained from self-designed questionnaires of corporation social responsibility. Other researchers, for example (Elouidani & Zoubir, 2015) and (Lioui & Sharma, 2012) used the econometrics of panel data to analyze the influence of CSR on the financial performance measured by ROA, Tobin's Q, ROE and assessed the impact of environmental CSR on their financial performance measured by ROA, Tobin's, respectively. Finally, they revealed a negative relationship between CSR and the firm's financial performance. But, Soana (2011) said that there was no significant relationship between these two variables, CSR measured by ethical ratings and the bank's financial performance calculated by using both market and accounting ratios. This inconsistency is caused by differences in selecting methodologies, approaches and selection of variables. As a result, the study used a questionnaires measure of the practice of CSR filled by various department managers after identified range of issues concern their activities and filled the gap of previous studies which take only the general manager/CSR manager of the company that may result in possible biases from a single unit.

Whether or not a relationship exists clearly is an important issue for corporate management. If certain actions (classified as socially responsible) tend to be negatively correlated with financial performance of firms, then managers might be advised to be cautious in this area. If, on the other hand, a positive relationship can be shown to exist, then management might be encouraged to pursue such activities with increased vigor or investigate the underlying causes of this relationship. Moreover, growing awareness of environmental, social, governance and ethical issues is changing the perceptions and attitudes of today's investors (Tripathi & Bhandari, 2015). The focus of this paper is on the question of whether these two factors (CSR and financial performance) are related.

This study relies mainly on the stakeholder theory and basically focuses on stakeholder CSR namely, employee CSR, customer and supplier CSR, community CSR and environment CSR. There have been many studies on CSR and financial performance though considerably less research has addressed the effect of different stakeholder CSR and financial performance.

Objective of the Study

The general objective of this study is to examine the effects of CSR towards primary stakeholders on firm's financial performance in the Ethiopian Leather Industry.

REVIEW OF LITERATURE

Since the 1950s, scholarly efforts were made to determine whether responsible business social conduct can significantly influence profit have yielded unclear results (Orlitzky, 2013). Mustafaa et al. (2012) adopted Carroll's 1991 Model to understand the relationship between CSR and financial performance in the Malaysian Context. They carried out a questionnaire survey to collect the view of top management in Malaysian public listed companies. The results derived from multi-group structural equation modeling within AMOS 7.0 proved that there is a positive relation between CSR and profitability. Similarly, Chen and Wang (2011) also conduct a study based on the stakeholder theory by defining nine kinds of stakeholders and viewing the companies taking CSR as giving responses to the interest requirement of these stakeholders. Data for this study were obtained from self-designed "questionnaires of corporate social responsibility." The results show that companies' social responsibility activity can improve their financial performances of the

current year, and both have significant effects on their financial performances of the next year and vice versa. Hillman and Keim (2001) differentiated between stakeholder management and social issue participation. These authors suggest that whereas improved relations with primary stakeholders can enhance competitive advantage and lead to better financial performance, the allocation of corporate resources to social issues that do not increase competitive advantage can reduce financial performance. Hence, corporate social performance will sometimes increase corporate financial performance and sometimes decrease it. These findings are also consistence with past studies (Russo & Fouts, 1997) found a positive relationship between environmental performance and financial performance. Waddock and Graves (1997) used the KLD data and measured the relation between CSR and financial performance. Their study proved that CSR resulted in an improvement in the firm's performance. However, Krishan (2012) developed an explanatory survey using multivariate correlations and cross-sectional methods. Variables included in this investigation were the social responsibility towards stakeholder's theory as independent variables, financial performance and non-financial performance as dependent variables. Finally, the study provided that there was a significant positive correlation between CSR activities towards various stakeholders namely, employees, customers, suppliers, communities and environment and firm performance, except in the case of environment CSR. Besides, Parsa et al. (2015) conducted two studies and examined consumer awareness of and response towards socially and environmentally responsible practice in the Hospitality industry. This survey study was conducted by using a judgment sample of 259 consumers in a major metropolitan area in the Southeastern, the United States. The study revealed that consumers with high investment in and positive attitudes towards CSR practice are more willing to pay a premium. Similarly, Kaushal & Priya (2018) prove that CSR reporting practices were found to be significantly affecting the financial performances among Indian commercial banks. Zali and Sheydayaee (2013) examined whether CSR is consistent with the financial performance or not. The study used path analysis; the results indicated that CSR has positive and significant influences on financial performance. Saeidi et al. (2015) also examined the relationship between CSR and financial performance of 205 Iranian Manufacturing and customer product firms with mediator variables (namely, sustainable competitive advantage, reputation and customer satisfaction). The study used the survey approach and Balanced Scorecard measurement for CSR taken as an independent variable and financial performance variable, respectively. Finally, they conclude that a role for CSR in indirectly promoting firm performance through enhancing reputation and competitive advantage while improving the level of customer satisfaction. This result concurred with Murtaza et al.'s (2014) investigation; they assessed the relationship between the CSR and the corporate financial performance of the food sector from the sustenance segment of Pakistan. CSR is taken as an independent variable and is measured by the utilization of firms for the prosperity of public opinion. They applied both quantitative and qualitative methods to evaluate the impact of these endogenous and exogenous variables and showed the positive relationship between CSR and corporate financial performance. In the same way, Mishra (2010) also looks into whether CSR towards six primary stakeholders (namely, employee, customer, investor, community, environment, and supplier) influences the financial and the non-financial performance of Indian firms. A questionnaire for assessing CSR towards various primary stakeholders was developed and obtained the aggregate CSR of these stakeholders' dimensions. Moreover, a three-year average of firm-level and industry level of return on assets was used to measure the financial performance. In conclusion, the study shows that favorable CSR towards selected primary stakeholders enhances firm profitability and non-financial performance. Besides, the findings of the study concur that favorable CSR towards suppliers can be a definite source of competitive advantages and bring higher returns. McGuire et al. (1988) also conducted the same investigation by using the annual survey of corporate reputations obtained from Fortune magazines and accounting and stock market-based measures were used to measure the financial performance of 98 firms covering a period of 1983-1985. To end with, the study revealed that there was a statistically significant appositive relationship between CSR and firm's financial performance. Johansson (2015) adopt a quantitative and longitudinal study, secondary analysis to examine the relationship between CSR and financial performance of Swedish publicly traded company in the years 2000-2009. The study utilized human rights, employee's rights and the company's action in a societal context as the measurement of companies' CSR performance. Its regression result revealed that there was a statistically significant positive effect of CSR and the firm's ROA in all observed years, but the relation between CSR and Tobin's Q (other financial performance measurement tool) is not significant. On the other hand, Lioui and Sharma (2012) assess the impact of environmental corporate social responsibility (ECSR) on Corporate Financial Performance (CFP) measured by ROA, and Tobin's Q. They suggest that the relationship between firms' return on assets (ROA) and ECSR, strengths and concerns, is negative and statistically significant. Whereas Rahmawati and Dianita (2011) found the same result using Content analysis of disclosure data and ROA to measure the CSR activities and financial performance of multiple companies in Indonesia, respectively. Elouidani

and Zoubir (2015) used the econometrics of panel data to analyze the influence of CSR on the financial performance measured by several indicators. From a sample of 20 firms listed on the stock exchange of Casablanca between 2007 and 2010, they found a negative and significant impact of the CSR on financial performance. Gbadamosi (2016) performed a stakeholder theory to examine the effects of CSR and financial performance from a sample of 71 United States Banks. In this study, the ethical rating, governance, diversity, employee relation data were used to measure the integration of banks' social responsibility and their financial performance was assessed through accounting return, and stock market data were analyzed by multiple regression models. As a final point, the study concluded no significant effect of social factors on the accounting returns. Besides, the study revealed governance, diversity, and employee relation were positively related to accounting returns while product and community factors were negatively related to profit.

Furthermore, Soana (2011) investigates the possible relationship between corporate social performance (measured by the ethical rating) and corporate financial performance (measured by the market and accounting ratios) in the banking sector using a correlation methodology. It emerges that there is no statistically significant link between corporate social performance and corporate financial performance. This finding is supported by Naila (2013) who suggested that there is no significant relationship between environmental compliance and financial performance among listed manufacturing firms in Tanzania. While Singh (2014) also said that there is no significant impact of CSR disclosure on financial performance, both in the short-term scenarios and long-term scenarios for the chosen industries in the UK. These are also consistence with earlier studies by Aupperle et al. (1985) who performed a regression analysis to understand the relationship between CSR and financial performance. They created a firm-level index of CSR and the results proved that there is a neutral relation between CSR and profitability. These inconsistencies of empirical analysis instigate the study conducted by McWilliams and Siegel (2000) to examine the impact of CSR on financial performance. And, they estimate the effect of CSR by regressing firm financial performance on corporate social performance with several control variables including firm size, advertising intensity of the industry of firm and R & D expenditures/sales and find that CSR has a neutral impact on financial performance. The inconsistency of the results from the above studies of the relationship between corporate social responsibilities and firm's financial performance is not unexpected, due to the lack of agreement of measurement methodology given the nature of the models that form the basis for the empirical estimation and the nature of the relationship between some measures of corporate social performance. Consequently, this study develops the stakeholder's theory (which is the most widely accepted in both theoretical and empirical literature) to examine the effects of CSR towards the employee, customer, supplier, community and environment on firms' financial performance measured by their return on the asset.

Research Gap

Many empirical studies have been conducted on the relationship between CSR and financial performance with findings rotating around positive, negative, neutral, and mixed relationships between the two constructs, depending largely on the methodology adopted in each study and how the study was designed. This is also mainly consistent with the earlier studies. These studies differed in the geographical settings, the perspectives adopted towards measurement of CSR and financial performance, the direction of the study as to which construct is treated as an independent variable or dependent variable, and finally the method of analysis.

In addition to this, while there have been numerous studies in the West on the relationship between CSR and financial performance, there have been few studies in the Ethiopian context. The existing studies in Ethiopian are mostly limited to self-reported questionnaires on CSR, nature, and characteristics of CSR, CSR policies of multi-nationals without any linkages with firm performance. With aggregation, a firm's high level of CSR may be driven by favorable CSR policies and practices towards a few stakeholders leaving the issue of other stakeholders fully or partially unattended. Analyzing the influence of such skewed measures of CSR on firm performance may not reflect a true relationship between the two constructs. This necessitates examining the influence of individual dimensions of CSR on firm performance. Only a few studies have examined the relationship between individual CSR dimensions and firm performance. This study examines the influence of the individual as well as aggregate CSR dimensions on firm performance in a specific industry, that is, the Ethiopian leather Industry.

ECONOMETRIC MODEL

The purpose of this study is to examine the effect of CSR towards various stakeholders namely, employees, customers, suppliers, communities and environment on financial performance of the leather industry in Ethiopia. The data involved in this study are ordinal (the social responsibility towards stakeholders collected through a Likert scale questionnaire) and ratio data (financial performance measured by ROA). Multiple Linear Regression models are

statistical tools that may be used in non-metric data either as independent variables or the dependent variables by the use of a binary measure in the specialized technique of logistic regression Hair et al. (2009). The methods of this study are explanatory survey using Multiple Linear Regression model, which involves five non-metric data independent variables (the social responsibility towards stakeholders namely, employees, customers, suppliers, community and environment) and a single the dependent variable (financial performance).

$$FP_i = \beta_0 + \beta_1 Emp\_CSR + \beta_2 Cus\_CSR + \beta_3 Sup\_CSR + \beta_4 Com\_CSR + \beta_5 Env\_CSR + \beta_6 Agg\_CSR + \mu_i$$

Where FP_i represents the financial performance and β_0 denotes intercept. β_1 ……β_6 are coefficients of explanatory variables, and Emp_CSR, Cus_CSR, Sup_CSR, Com_CSR, Env_CSR and Agg_CSR indicate explanatory variables for employees, customers, suppliers, community, environment and aggregate CSR, respectively. Moreover, μ_i signifies an error term that may represent all those factors that affect financial performance but are not taken into account explicitly.

Operationalization

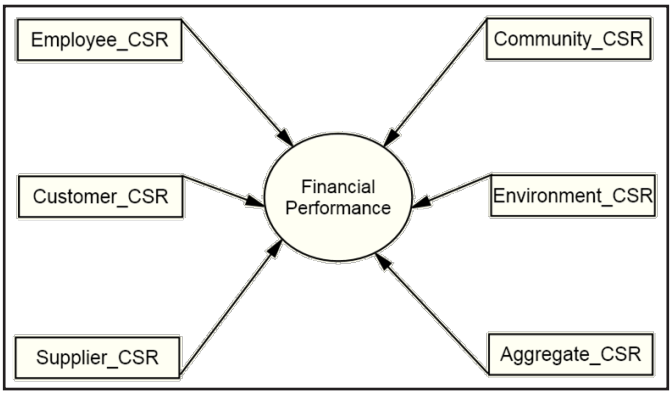
Dependent Variable

Unlike the CSR, financial performance presents a little challenge when it comes to selecting which parameters to use as indicators of financial performance. In this research, financial performance data are calculated on the performance for three consecutive years (2014-2016) and measure accounting-based perspective as noted in the literature review section; particularly, the study uses average ROA which is a robust measure of financial performance. It is an indicator of how profitable a company is with regards to its total assets. ROA gives an idea on how efficient the management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage.

Explanatory Variables

In this study, firm's corporate social responsibilities are developed with respect to five primary stakeholder groups including employees, customers, suppliers, community and environment.

- *Employee CSR:* It assessed CSR towards employee through the extent of training and development in the firm, worker participation in decision making, commitment to health and safety of the workers, employee benefits policy, etc.
- *Customer and supplier CSR:* It assessed CSR towards customers and suppliers through the extent of clear and accurate information about product labeling, resolving customer complaints, ethical practices at suppliers' locations, and voluntary codes for advertising.
- *Community CSR:* It assessed CSR towards community through the extent of firm's contribution to community health, education, and other social in initiative activities.
- *Environment CSR:* It assessed CSR towards environment through having explicit environment policy, using renewable source of energy, the policy of recycling or treatment of waste and environmental emergency plan and so on.



Source: Adapted from Model development by Krishnan, 2012

Fig. 1: The Framework for Dependent and Explanatory Variables

Data Type and Method of Collection

Gandhi and Dalvadi (2017) suggest that researchers may use quantitative or qualitative disclosure of social performance reporting data. The study used primary data collected through a structured questionnaire filled by different department managers after an identified range of issues concerning their activities such as the human resource department (employees), marketing department (customers), purchase department (suppliers), and department for public affairs and community relations (community and environment issue). This is due to many Ethiopian companies have no separate department for CSR practice and data collected from only one manager of the firm did not allow to get relevant data about each CSR dimension. Any data source other than the survey data is treated as secondary data such as participating companies' annual reports which include data which enables calculations of the dependent variables of ROA.

Questionnaire Design and Content

A major objective of this study is to examine the effects of CSR on financial performance. The CSR is related to CSR towards various internal and external stakeholders. The questionnaire was prepared with a cover letter explaining the purpose of the study, and the questionnaire was divided into two major parts. The first part related to respondents' demographic information such as name of their company, their position and types of industry. The second part asked respondents' degree of compliance on the extent of CSR practices with respect to the various stakeholders namely, employees, customers, suppliers, community and the environment in the company.

Therefore, this study adopted an explanatory survey and cross-sectional data. Because the study allowed collecting quantitative data which could be analyzed quantitatively using descriptive and inferential statistics and the data collect using a survey strategy can be used to suggest possible reasons for particular relationships between variables and to produce models of these relationships. Cross-sectional refers to the time frame of collecting data of stakeholders' CSR based on the current condition at one time (snap shot). The ROA calculated from the balance sheets and income statements of companies available in annual reports for three consecutive years (2014-2016) are used as a measure of financial performance. A three-year average of ROA for firm-level will obtain to eliminate possible biases that may result from a single-year figure.

Sampling Technique

Representative samples are generally obtained by following a set of well-defined procedures, which are defining the target population, selecting a sampling method, frame, and determining a sample size.

As per the data obtained from, Leather Industry Development Institute, as of 2016, Ethiopian leather industry has estimated to have 70 large and formal enterprises: 23 tanneries, 20 shoe manufactures, 3 gloves makers, and 24 leather and leather goods industries. There are, however, several hundreds of MSMEs operating in markets and backyards manufacturing an assortment of footwear, leather goods and garments (CSA, 2016). Since 54 firms or 77 percent of the leather industry enterprises found in Addis Ababa region (the capital city of Ethiopia), this study will take as a target population operated in the city (see appendix A). The sampling error (which is the expected variation in estimated that is due to the use of a sample rather than the population) is reduced as the sampling size is increased (Hair et al., 2009). In order to benefit from this advantage, the study collected data from the entire population and adopted a census sampling technique. Moreover, for practical reasons, it is possible to include all of its members in the investigation due to their geographical locations of the enterprise which has not yet been dispersed.

Data Testing Tools

The questionnaire was close-ended, which permits respondents to give their responses on a scale of 1 to 5, 'Strongly disagree' (1); 'Disagree' (2); 'Neutral (3); 'Agree' (4); and 'Strongly Agree' (5). The Internal consistency of the questionnaire will measure using correlation coefficients between each variable of CSR and the aggregate CSR. The reliability of an instrument is the measure of consistency. The less variation an instrument produces in repeated measurements of an attribute, the higher is its reliability. The Cronbach's Coefficient alpha will apply to measure the consistency of the questionnaire. This method is used to measure the reliability of the questionnaire between each field and the mean of the whole fields of the questionnaire. The normal range of Cronbach's Coefficient alpha is between 0 and +1; the higher the value, the greater the consistency among the measures. The study also assessed the basic multiple regression assumptions including linearity, normality, no perfect multicollinearity, Homoskedasticity and other assumptions by using the most preferable detecting approaches.

Methods of Data Analysis

The numerical data collected in this study was analyzed quantitatively using both descriptive and inferential analysis of statistical tools. Because the study used a Likert scale questions ranging from 1 (strongly disagree) to 5 (strongly agree), replacing the verbal level with a number from 1 to 5 makes the data look like an interval scale because the numbers are equally spaced but we cannot know whether the psychological property underlying the responses is also equally spaced. So to fill this gap, it is better to use mean, median and mode for Likert scale ordinal data (Hole 2011). Therefore, this study applied a descriptive analysis of statistical tool to describing, aggregating, and presenting the constructs of interest or associations between these constructs. And then tables, graphs and accordingly charts are used to present the research findings. Moreover, the inferential analysis will help to test the hypothesis and reach conclusions about effect of corporate social responsibilities towards primary stakeholders (namely, employees, customers and suppliers, community and environment) on financial performance using multiple regression model, producing through a statistical tools – *Stata* and the study also employed the mean of each dimensions to come up with

scale data and to apply regression coefficient of the model which represents the amount of change in the dependent variable for a change in the independent variable.

Testing Content Validity of the Questionnaire

Content validity considers whether or not the items need to effectively act as a representative sample of all the possible questions that could have derived from the construct. In this study, CSR was measured separately for each stakeholder and a closed-ended questionnaire was filled by various department managers after identifying a range of issues concerning their activities such as employees, customer, supplier, community and environment CSR-related activities were administered by human resource manager, marketing/ sales manager, purchasing manager, and public relation & community service affair personnel, respectively.

Testing Criterion Validity

This study evaluated the internal consistency of its questionnaire measured by using the correlation coefficients between each measure of the underlying CSR variables (see Table 1 below).

Table 1: Correlation Coefficients Between Each Measure of CSR Variables

S. No	Items	Correlation	P-Value
Employees CRS			
01	Providing a safe & healthy working environment to all its employees	0.501**	0.001
02	Providing a wide range of indirect benefits for its employees	0.771**	.000
03	A reasonable salary employees receive	0.732**	.000
04	Provision of additional education supporting	0.400*	0.017
05	Opportunity to develop employee's skills	0.581**	.000
06	Policies that encourage employees to develop their careers and skills	0.646**	.000
07	Providing a good work and life balance for its employees	0.780**	.000
08	Emphasizing on employees' needs and wants	0.608**	.000
09	Fair managerial decision	0.744**	.000
10	Equal opportunity	0.715**	.000
Customers CSR			
01	Providing high quality products	0.423**	.006
02	Comply with the national and international standards	0.712**	.000
03	Guarantee extension	0.758**	.000
04	Disseminating full and accurate information about its product	0.677**	.000
05	Customer satisfaction	0.658**	.000
06	Responses to customer complaints	0.676**	.000
07	Know by respected and trustworthy company	0.753**	.000
Supplier CSR			
01	Inspection the supplier facilities for health, safety & environment	0.510**	.001
02	Providing ethical & friendly procurement at supplier place	0.564**	.000
03	Having clear and a strong return policy	0.838**	.000
04	Creating consistent communication channels with supplier	0.572**	.000
05	Paying/receiving competitive market price timely	0.617**	.000
06	Sharing information with suppliers	0.736**	.000
Community CSR			
01	Emphasizes on the importance of CRS to the society	0.718**	.000
02	Contribution for schools/hospitals and parks	0.727**	.000
03	Contributing for projects that promote the well-being of the society	0.783**	.000
04	Making money contribution for charity	0.655**	.000
05	Participation in voluntarily activities	0.803**	.000

S. No	Items	Correlation	P-Value
06	Conducting R & D to improve the well-being of the society	0.765**	.000
Environment CSR			
01	Preventing direct & indirect pollution of water and air	0.718**	.000
02	Making plan to avoid environmental degradation	0.879**	.000
03	Implementing special programs to reduce environmental impact	0.574**	.000
04	Participation in protecting the quality of environment	0.736**	.000
05	Providing information about environmental management	0.850**	.000
06	Using a substitution for polluting and hazardous materials	0.900**	.000

Source: Correlation result (using SPSS).

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

*Correlation is significant at the <0.05 level (2-tailed).

As shown in Table 1 above, the correlation coefficient for each measure of CSR variables is strong and significant at P-value less than 0.01, except one item less than 0.05. Therefore, it can be said that the measures are consistent and valid to measure what it claims to measure.

Reliability of the Research

This study adopts Cronbach's alpha method which is the most common method of assessing the internal consistency of the instruments (i.e. questionnaire). The normal range of Cronbach's Coefficient alpha is between 0.00 and +1. The higher value indicates that greater consistency among the measures. Kline (1999) notes that a value between 0.7 and 0.8 is an acceptable value for Cronbach's alpha; values substantially lower than this indicate an unreliable scale. As shown in Table 2 below, the results of Cronbach's alpha of the CSR measures, there is a good internal consistency.

Table 2: Reliability Analysis- Using Cronbach's Alpha

Items	Number of Items in the Scale	Scale Reliability Coefficient (α)
Employees CSR	10	0.8462
Customer CSR	7	0.8025
Supplier CSR	6	0.7000
Community CSR	6	0.8355
Environment CSR	6	0.8709
Aggregate CSR	5	0.7823

Source: Stata Output.

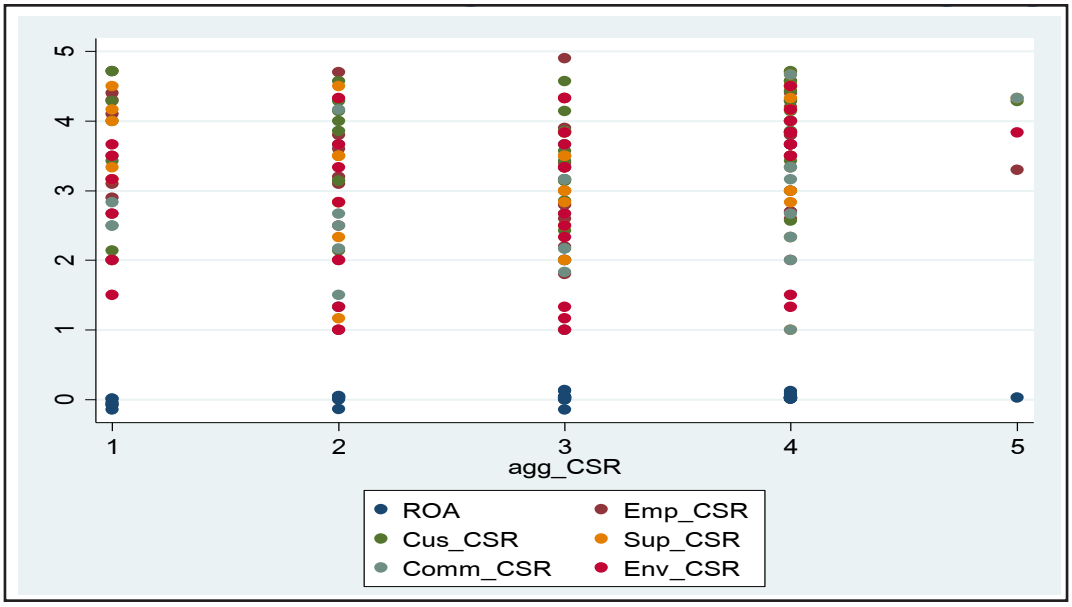
Testing the Assumptions of Multiple Regression Analysis

According to Hair (2010), the multiple regression analysis must make several assumptions about the relationships between the dependent and independent variables that affect the statistical procedure used in the analytical tool. These assumptions must be checked to be true before any meaningful conclusion is drawn about a population. I describe the Gauss-Markov or classical linear regression model assumptions (particularly for cross-sectional regression) below and explaine how it was tested in this study in order to permit the gneralization of the conclusions drawn from the tests based on surveyed data to the entire population.

Linearity Assumption

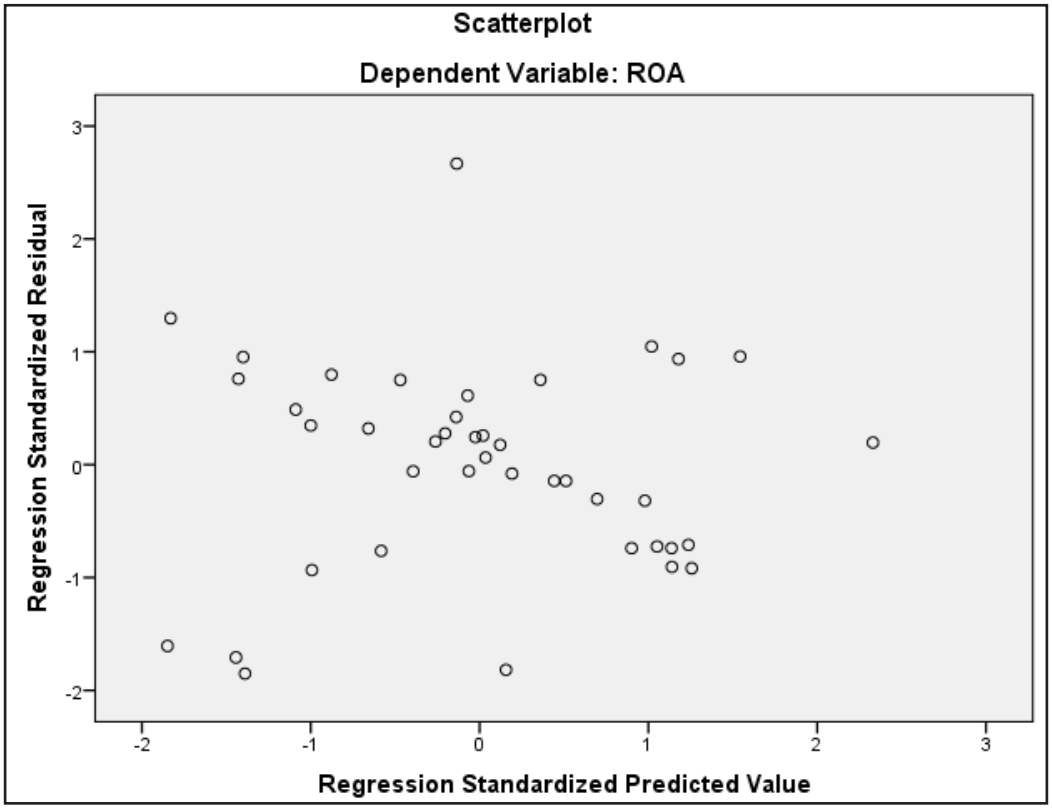
First, multiple regression model needs the relationship between the independent and dependent variables to be linear, with a constant slope (Williams, Grajales, & Kurkiewicz, 2013). They recommend that before checking the linearity assumption, it is also important to check for outliers since multiple linear regressions are sensitive to outlier effects (i.e. cases whose values differ substantially from the other observations). So, the researcher used the most helpful methods of detecting outlier cases particularly for small sample – Graphic techniques. Given the results of scatter to plot the dependent and explanatory variable shown in Fig. 2 below nothing obvious stands out for outlier.

Therefore, the dots in Fig. 3 below did not reveal any curve pattern or curve linearity relationship between the *ZRESID and *ZPRED. Therefore, the linearity assumption was met in this study model.



Source: Stata Output

Fig. 2: Detect the Outlier Using Graphical Technique



Source: Stata Output

Fig. 3: Linear Relationships with Standardized Residuals by Standardized Predicted Values

Normality Assumption

The two statisticians (D'Agostino & Pearson, 1973) propose the preferable approaches of normality testing: Omnibus test of normality that combines both the test of skewness and kurtosis. The null hypothesis is H0: normality, versus the alternative hypothesis H1: non-normality due to either skewness or kurtosis. As shown Table 3 below, the null hypothesis is that the distribution of the residuals is normal, because the p-value is 64.87% failed to reject the null (at 95% confidence interval). So, the researcher concludes that residuals are normally distributed.

Table 3: Omnibus Test of Normality

Skewness/Kurtosis tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	joint adj chi2(2)	joint Prob>chi2
resid	41	0.5980	0.4578	0.87	0.6487

Source: Stata Output

No Perfect Multicollinearity Assumption

According to Gujarati (2004), multicollinearity refers to the existence of a perfect or exact, linear relationship among some or all explanatory variables of regression model. If multicollinearity is perfect (for relationships between more than two predictors), the regression coefficients of the *X* variables are indeterminate and their standard errors are infinite. For the purpose of testing this assumption, the study used the variance inflation factor (VIF) which is one popular measures of Multicollinearity, although several other diagnostics are available. VIF shows how the variance of an estimator is inflated by the presence of multicollinearity.

As a rule of thumb, if the VIF of a variable exceeds 10, the variable is said to be highly collinear. In this study after running multiple regressions analysis in Stata, the VIF generated Table 4 of the significance of correlation among the independent variables. Moreover, the study also used Tolerance (TOL) that the inverse of the VIF as a measure of Multicollinearity in view of its intimate connection with VIF. The closer is TOL to zero, the greater is the degree of collinear of that variable with the other repressors. On the other hand, the closer TOL is to 1, the greater is the evidence that explanatory variables are not collinear with other repressors. Also as a rule of thumb, a tolerance below 0.1 shows presence of a serious problem. Generally, as shown in Table 4 below the largest VIF of 3.50 and the lowest tolerance (1/VIF) of 0.28 are within the acceptable range, indicating that multicollinearity was not present in the data.

Table 4: A Measure of Multicollinearity

Variable	VIF	1/VIF
Sup_CSR	3.50	0.285895
Comm_CSR	2.19	0.457033
Emp_CSR	2.05	0.488639
Cus_CSR	1.67	0.597146
Env_CSR	1.53	0.655437
agg_CSR	1.14	0.874243
Mean VIF	2.01	

Source: Stata Output

Where; Sup_CSR = Supplier CSR, Comm_CSR = Community CSR, Emp_CSR = Employees CSR, Cus_CSR = Customer CSR, Env_CSR = Environment CSR and Agg_CSR = Aggregate CSR.

Moreover, none of explanatory variables were having correlation coefficient above 0.8 as depicted in Table 5 below and no perfect multicollinearity exists in the data.

Table 5: Testing Collinearity Among Explanatory Variables

(obs=41)

	Emp_CSR	Cus_CSR	Sup_CSR	Comm_CSR	Env_CSR	agg_CSR
Emp_CSR	1.0000					
Cus_CSR	0.4607	1.0000				
Sup_CSR	0.7137	0.6237	1.0000			
Comm_CSR	0.4001	0.2936	0.6041	1.0000		
Env_CSR	0.2001	0.1315	0.3029	0.5647	1.0000	
agg_CSR	0.0821	0.1111	0.1476	0.2984	0.3149	1.0000

Source: Stata Output

Perfect Homoskedasticity (Var ($U/X_1 \ldots X_k$) = δ^2) Assumption

This assumption means that the variance in the error term, *u*, conditional on the explanatory variables, is the *same* for all combinations of outcomes of the explanatory variables (Gujarati, 2004). If this assumption fails, then the model exhibits heteroskedasticity, violates the assumption of multiple regression analysis and should be tested. So with the suspecting of such problem, the study makes one of the heteroskedasticity test, *White General Test*. (White & Macdonald, 1980) recommend a White General Test for heteroskedasticity in the error distribution because it adds a lot of terms to test for more types of heteroskedasticity. This author also suggests that if there is no heteroskedasticity, then the test statistic should be insignificant. Conversely, if there is heteroskedasticity, then the test statistic will be significant. This is because the null hypothesis is Homoskedasticity. Accordingly, Stata helped to check this assumption and the result shows (see Table 6) that there is no statistically significant variation of the error term. The probability value of White's test is 49.20% which indicates that the null hypothesis is accepted and proved the study was not violated the Homoskedasticity assumption (see Table 6 below).

Table 6: Testing Heteroskedasticity- Using White General Testing

White's test for Ho: homoskedasticity
against Ha: unrestricted heteroskedasticity

chi2(27) = 26.48
Prob > chi2 = 0.4920

Cameron & Trivedi's decomposition of IM-test

Source	chi2	df	p
Heteroskedasticity	26.48	27	0.4920
Skewness	11.38	6	0.0772
Kurtosis	1.98	1	0.1591
Total	39.85	34	0.2260

Source: Stata Output

In addition to this, following the recommendation of Field's (2009), the pattern of a scatter plot of *ZRSID against the *ZPRED was also used to detect the problem of Homoskedasticity assumption. Accordingly, the assumption

of Homoskedasticity is satisfied only when the dots in the plot are random and the graph does not funnel out. The dots in the above Figure 3 are scattered without any clear pattern and the graph did not funnel out, so the assumption of Homoskedasticity was met in this data.

Generally, the dependent and explanatory data of this study analyzed by using multiple regression models was satisfied the basic Gauss-Markov or classical linear regression model assumptions including, linearity, normality, multicollinarity, homoscedasticity and so on.

ECONOMETRIC ANALYSIS

The following regression results of some supportive variables are obtained so as to support the main findings that are going to be discussed.

Table 7: Regression Result for CSR and Financial Performance (ROA)

Source	SS	df	MS	Number of obs =	41
				F(6, 34) =	7.63
Model	.079598807	6	.013266468	Prob > F =	0.0000
Residual	.059093985	34	.001738058	R-squared =	0.5739
				Adj R-squared =	0.4987
Total	.138692792	40	.00346732	Root MSE =	.04169

ROA	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Emp_CSR	.0227405	.0097746	2.33	0.026	.0028761	.0426048
Cus_CSR	-.0334258	.0096561	-3.46	0.001	-.0530493	-.0138023
Sup_CSR	.0237509	.0138285	1.72	0.095	-.0043519	.0518537
Comm_CSR	-.0319193	.0105829	-3.02	0.005	-.0534264	-.0104123
Env_CSR	.0237443	.0075908	3.13	0.004	.008318	.0391706
agg_CSR	.021939	.0063304	3.47	0.001	.009074	.0348039
_cons	-.0627421	.034922	-1.80	0.081	-.133712	.0082279

Source: OLS regression Result

The *P-Value* of *F*-statistics of the model indicates that the reliability of predictor variables to predict the output variable. Usually, a probability of lower than 5% is required to show a statistically significant relationship between dependent and explanatory variables. Therefore, the total effects of the CSR variables as a whole are statistically significant at 1% significant level.

Similarly, the adjusted R-square shows the amount of variance of financial performance explained by CSR variables. In this case, the model explains 50% (approximately) of the variance in financial performance.

Table 7 (above) shows that at 5% significant level, there is a positive relationship between return on asset and CSR towards employee: holding other independent variables fixed. This implies that a favorable CSR towards employees enhanced the financial performance (ROA) of the firm by 2.3%. This is sharply consistent with previous findings of (Krishnan, 2012; Waddock & Graves, 1997; and Chen & Wang, 2011) who revealed that employees CSR strengths and concerns improved the financial performance of firms. From these finding, the researcher understands that as Ethiopian leather manufacturing industries successfully integrated in various employee-related CSR activities in their human resource policies and attention on human resource management practices, including safety & health work environment, equal opportunities, their participation in problem solving may reduce the attrition rate, increases employee productivity and firm performance. Therefore, socially responsible management of employees might involve higher benefits than costs for these manufacturing companies. Hence,

Hypothesis	Result
H1: Favorable CSR towards employee is positively related to firm's financial performance.	Accepted

On the other hand, one parameter of CSR towards customer shows a negative relationship with firms financial performance measured by ROA, at 1% significant level, *Ceteris paribus.* This reveals that as the firm incorporated on customer CSR activities result in negative impact on its return on asset. This result much similar with Hillman and Keim (2001) stated that product issue CSR actions have a negative relationship with the financial performance measured by Market-to-Book Asset. According to Parsa et al. (2015), a strategic commitment to social and environmental sustainability can be a key element in sustaining the loyalty and patronage of an organization's target market. They are also revealed that if consumers' awareness on the extent of practice is limited, companies did not get the expected benefit. Hence, to help consumers recognize the firm's CSR practices and factor these into their attitudes and patronage decisions, companies need to make a concerted effort to inform consumers through various mechanisms. The researcher understand that this result may be due to companies ineffective ways of communicating and promoting their CSR activities that are most likely to gain patronage, especially from consumers who exhibit high involvement with environmentally and socially responsible practices. Furthermore, the findings may be due to the fact firms are realizing the importance of taking such CSR issue standards for their sustainability in the long run. That may result in negative effects of customer CSR on firm's financial performance. However, companies make themselves stronger and better able to fulfill its obligations for customers CSR.

Table 7 above the regression result of supplier CSR on financial performance measured by ROA indicates that, statistically significant of positive effect at *P-Value* of 0.1 significant levels, holding other predicators are fixed. This implies that a favorable Supplier CSR activities increased firm's return on asset by 2.4% (or 0.24 cents). A direct link between CSR towards suppliers and firm performance substantiates previous findings (for example, Mustafa et al., & Krishnan, 2012) revealed that poor performance in supplier CSR commitment, including poor supplier relations, problematic return policy, violating laws and regulations related to the safety assurance of suppliers, and any connection to the violation of human rights may have significant deleterious impacts on firm financial performance. Therefore, the empirical analysis above reveals that:

Hypothesis	Result
H2: Favorable CSR towards customers and suppliers is positively related to firm's financial performance. *However, as the firm integrated in the Customer CSR activities its financial performance negatively affected.	Accepted*

Table 7 above shows statistically significant negative effect of the communities CSR commitment of the firm on its return on asset performance at (1% significant level), holding other things constant. Namely, if the companies take more responsibility for its society, it will be hard to improve financial performance (by 3.2%). This result is strongly confirmed with previous studies (for instance, Hillman & Keim, 2001; Elouidani & Zoubir, 2015) that found a negative effect of social issue participation on firms' stock market performance. Elouidani and Zoubir (2015) reviewed that companies which have a privileged societal approach are penalized and produce a profitability of assets and equity capital less than the other companies. This implies that possibly, the community CSR issue pushes the company to engage in investment generating costs that reduce the profitability. Hence,

Hypothesis	Result
H3: Favorable CSR towards community is positively linked to firm's financial performance. *However, the regression coefficient shows a negative relationship.	Accepted*

Companies seek to measure their environmental performance either because of the potential benefits associated with it, or in response to environmentally oriented stakeholders **(**Alomari & Ibraheem, 2019). Particularly, leather manufacturing industries (including tannery, footwear, and glove) are large industrial consumers of waters as well as producers of wastewaters with the increased demand for leather products leading to increase in the generation of leather wastewater, which makes the leather industry one of the main sources of severe pollution problems worldwide (OECD, 2014). As the questionnaire survey result shows that Ethiopian leather industries making it well-built and better able to fulfill its obligations for reduction of its impact on natural environment. Surprisingly, the regression result of this predicator (Environment CSR) shows statistically significant positive effect on firm's financial performance (at 1% significant level), holding *ceteris paribus.* Explicitly, as companies become more environmental CSR strengthen

and concerns have a positive effect with its return on asset (increased by 2.4%). This is consistency with prior findings (such as, Russo & Fouts and Waddock & Graves, 1997) showed that higher environmental performance is associated with higher financial performance. Hence,

Hypothesis	Result
H4: Favorable CSR towards environment is positively linked to firm's financial performance.	Accepted

Given that all the variables of CSR towards stakeholders were evenly measured on a 5 point Likert scale, it was determined to average the scores of the five measures of CSR into an aggregate score, namely the Aggregate CSR (Krishnan, 2012). This was considered as the comprehensive measure of CSR activities of the firm towards various stakeholders namely, employees, customers, suppliers, community and environment CSR. As Shown from Table 7 above, there is a fairly high-level scale reliability coefficient (α) of Aggregate CSR. The regression coefficient for this variable indicates a statistically significant positive effect on firm financial performance (at 1% significant level). This implies that if the enterprise take more responsibility to its stakeholders, it will be better to improve financial performance. It confirm the findings Chen and Wang (2011), who revealed that privileged performance in primary stakeholder domains, including environment, employees, supplier, and so on, may have significant safe position on firm financial performance. Hence,

Hypothesis	Result
H5: There is a strong relationship between aggregate CSR and firm's financial performance.	Accepted

CONCLUSION AND RECOMMENDATION

CSR is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. CSR is a concept with many definitions and practices. The way it is understood and implemented differs greatly for each company and country. Numerous studies were conducted to answer the question: does the CSR affect the financial performance? The findings of these studies showed a positive, negative, neutral relationship between CSR and financial performance. These inconsistent empirical analysis results are not surprising due to the lack of agreement on the measurements and definition of CSR activities, even on the financial performance measurement and due to the nature of CSR activities, which depend upon the development, awareness and ambition levels of the organization.

Therefore, for the reason that cultural, economic, technological and geographical differences, and the debate regarding to business's CSR activities towards its financial performance as well as inconsistency results from previous studies. This study develops a stakeholder's theory, aiming to examine the effects of CSR towards various stakeholders specifically, employees, customers, suppliers, communities and environment on the financial performance of Ethiopian leather industries which produce tanning, footwear, gloves, and other leather products. Supported from the empirical literature (for example, McWilliams & Siegel, 2000; Gbadamosi, 2016; & Johansson, 2015), the researcher applied multiple regression models to analyze the relationship between CSR and financial performance, and collected data from closed-ended questionnaire and firm's financial report, respectively.

To end with, the empirical analysis of this study reveals that many Ethiopian leather manufacturing industries were confirm confidently with their socially responsible actions towards their primarily stakeholders including employees, customer, supplier, community and environment. Furthermore, the study also conclude that there is a positive effect/relation between employees CSR, Supplier CSR, Environment CSR, even the aggregate CSR on/with the financial performance of Ethiopian Leather industries. However, there is a negative relationship/effect of customer CSR and Community CSR with/on their financial performance.

Based on the major findings of this study, the researcher offers a number of recommendations as a call for action by different groups to optimize the financial performance of leather industries in Ethiopia.

It is better for those leather manufacturing companies to develop a proactive policy that portrayed their CSR activities towards employees and suppliers. The company's policies should provide a safe and healthy working environment to all its employees, equal opportunity to develop employee's skills and careers, provision for additional education, ethical and friendly procurement at supplier location, clear, to avoid and arguments at the time of returns and so on.

It is better for company's managers to be cautious while they make decisions regarding to environmental compliance. This implies that companies should work and discuss together with the concerned bodies to improve the quality of natural environment because it enhances their financial performance.

RECOMMENDATION FOR FUTURE RESEARCH

The researcher recommends for further researchers to identify whether customer and community awareness or its long-run effect leads to negative effects of CSR towards customer and community on firms financial performance. Furthermore, this study considers only five stakeholders, but other researchers can examine the unobserved stakeholder aspects such as investors, government and shareholders.

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