The effect of corporate social responsibility on banks' competitive advantage: Evidence from Ethiopian lion international bank S.C

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ABSTRACT: Due to globalization and technological change, the current business environment in a developing country is competitive, which requires a firm's engagement in CSR to remain competitive. Therefore, this study examined the linkage between different dimensions of CSR engagement (customer, employee, community & environmental) with the banking industry's competitive advantage strategy and ranked the contribution of these stakeholders of CSR to their competitive advantage. The study used a cross-sectional data of 28 branches of Lion International bank of Ethiopia and analyzed using confirmatory factor analysis and structural equation model. The results showed that separate stakeholders of CSR implementation (customer, community, employee, and environment) had a positive influence on the bank's attached elements of competitive advantage. Explicitly, the banks are more concerned about customer-based CSR and are considered the most vital factor for their competitive advantage. Conversely, banks gave the least emphasis on environment-related CSR. Hence, the bank managers should give more stress on environment-related CSR and integrating it with the firm's business operation that might have a high impact on the firm's competitive advantage, helping them to ensure sustainable development.

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PUBLIC INTEREST STATEMENT
The industries can address customer, employee, community, and environmental issues for maintaining its competitiveness. So, this study examined the linkage between different dimensions of CSR engagement with the banking industry's competitive advantage strategy and ranked the contribution of these stakeholders of CSR to their competitive advantage. The collected data analyzed using confirmatory factor analysis and structural equation model. This study showed that there was a linkage between the banking industry's competitive advantage and its CSR engagement. The paper contributed to establishing which stakeholders of CSR are more targeted strategies followed as the company's competitive advantage. Furthermore, business managers may use the findings to design more effective dimensions of CSR strategies to their competitive advantage.
1. Introduction

Corporate social responsibility (CSR) is the way organizations integrate social, environmental, economic concerns in their business operation and interactions with stakeholders voluntarily in a transparent and accountable manner (European Commission, 2001; Van Marrewijk, 2003). The world business council for sustainable development also defines CSR as the continuing commitment of business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society in general. According to McWilliams and Siegel (2011), strategic CSR as any responsible activity that allows a firm to achieve sustainable competitive advantage, regardless of motive. Strategic CSR occurs when a company links the provision of public goods to the sale of its private goods or services (Bagnoli & Watts, 2003).

The European Commission (EC) recognized the importance of CSR in achieving the most dynamic, competitive economy and emphasizes the need to encourage voluntary initiatives of the business sector in achieving sustainable development goals (Petrović-Randelović et al., 2015). Therefore adopting CSR strategy, companies may obtain higher stock returns and satisfy the needs of their stakeholders (Karagiorgos, 2010) and CSR oriented companies enjoy a higher level of stakeholders’ confidence which reflected in higher returns, good wages, timely payment, enhanced reputation, and goodwill (Mishra & Suar, 2010). Moreover, as evidence by the previous researchers (Burke & Logsdon, 1996; Gras-Gil et al., 2016; Lin et al., 2011), the firm’s investment in CSR lead to the recovery of corporate credibility in product and company crises, enhances a firm’s public image and gives the firm unique comparative marketing advantages. Mostly among increasingly socially conscious consumers, which in turn, increases the firm’s long-term revenue. Another finding supports the legitimacy theory; it could be that banks invest in CSR activities not with the immediate intention of profit-making but as a way of appreciating the society. However, this helps the banks to create awareness of their banking services, and increase their customer base (Oyewumi et al., 2018).

CSR is ever more on the agenda of business organization, due to its ability to enhance the competitiveness of a firm and finally, CSR is an important driver of enhancing the financial performance of the business (Maqbool & Zameern, 2018; Margolis et al., 2009). Also, firms’ ability to respond to CSR regulatory pressures becomes an increasingly important factor in maintaining their global competitiveness, since companies are obliged to follow the international rules on CSR when they need to acquire a passport to the international market. There is a pervasive lack of comprehensive understanding of CSR and with limited CSR engagement among developing country enterprises. Most businesses believe it suffices to meet the minimal standards set by national regulations in terms of labor conditions and environmental impact and get a license to operate from the government. In a highly competitive market, companies that take the steps necessary to truly address labor and human rights issues find themselves undermined by less scrupulous competitors (Gugler & Shi, 2009).

Commercial banks of Ethiopia (CBE) play a crucial role in the country’s socio-economic development. It provides services such as accepting deposits, making business loans, customer base, and branch network (Auka, 2006; Bimir, 2016; Uvaneswaran & Ayele, 2017). The private CBE has a looser attitude to support greener industries, lower lending options to low-income individuals, and small businesses. It also less engaged in community development and less understanding of poor financial management in banking organizations results in an adverse effect on the environment and society. But the bank finance national projects that support the majority of low-income
individuals (Mamo, 2017; Tadesse, 2015). According to the international finance corporation (International Finance Corporation, 2008), having a well-functioning and vibrant financial sector is a critical ingredient in accelerating economic growth by spurring private sector development and ensuring macroeconomic stability thereby leading to the creation of employment and poverty reduction. However, recently the banks pay attention to the integration of social and environmental concerns in their business operations to attain a sustainable profit. Poverty, illiteracy, poor infrastructure, bad road network, and environmental pollution are possible issues in the country that require such organizations to play an active role in addressed those problems (Hailu & Nigatu, 2015).

The empirical evidence showed that the CBE is only limited to planting trees once a year within its employees includes top management. But no annual donation was made towards environmental protection. The donation is made only when a request is coming from any one of the stakeholders working on environmental protection and sustainability. On the other hand, CBE has done better in community development through donations to support community welfare through local NGOs. And also other social activities through government department those working in special need groups like disabled people, special need student, retired staff members, for legal training through court, relief associations, care for elders, fistula cure, HIV, children heart, and eye health. A greater portion of the corporate social donation was given for government offices than others due to the reactive approach of CSR in CBE. Besides, CBE member associations engage in various humanitarian, environmental, economic, cultural, and other activities (Bimir, 2016; Mamo, 2017). CSR has a positive and significant effect on banks’ profitability i.e., financial performance. The highly profitable commercial banks have heavily invested in CSR activities. Being a good corporate citizen attracts more depositors who are loyal (Uvaneswaran & Ayele, 2017).

With the increasing rate of competition among banks in the real world, attracting new customers is no longer the sole objective of financial institutions. What concerns most is whether or not banks can maintain existing customers with a positive impression and improving the rate of meeting the desired expectations of customers. Ethiopian businesses operate their activities based on their feeling and interest since the business as well as the regulatory body is not strong and efficient enough to set or obey laws. For the reason that in Ethiopia, the business environment direct by the oldest commercial code issued in the 1960s. Moreover, much of the population is rural and illiterate. The difference among firms may be either they provide a philanthropic contribution to society or produce a quality product at a reasonable price that is visible for the decisions. The contribution of a business firm in the country’s economy and eradicating poverty in Ethiopia is significantly increasing. Also, the reports disclose only the customer’s and employees’ aspect ignoring the community at large as well as the environmental issues. Because the majority of the business firms in Ethiopia focused on profit maximization, ignoring the other issues. The finding showed that there is no relationship between the financial contribution to CSR activities and corporate financial performance (Kesto, 2017).

Due to globalization and technological change, the current corporate environment is very active and very competitive, which requires organizations to include social, environmental, corporate governance, and stakeholders’ concerns in their policies to remain competitive (Lim & Greenwood, 2017; Mahjoub, 2019). According to Adusei (2016) and Lema (2017), in a vibrant and competitive banking system strong, technically efficient, and profitable banks can promise a realistic return to their stakeholders and reduce the probability of bankruptcy. The CSR and ethics are key determinants of a firm’s competitive advantage and that they can help improve a firm’s corporate image and reputation (Gardiner et al., 2003; Worcester & Balmer, 2009).

Different authors have used qualitative assessment, and reviewed literature argued that CSR and competitiveness relate (Lu et al., 2020; Vilanova et al., 2009). Moreover, several empirical studies found a positive association between the CSR activities and the company’s competitive advantage (El-Garaiby et al., 2014; Nyuur et al., 2019; Panwar et al., 2016; Porter & Kramer, 2006), and other
studies found no or a negative association (Hassel et al., 2005; Nelling & Webb, 2009). But, Porter and Kramer (2006) also suggest that the nature of the relationship between CSR and competitiveness is still unclear. Therefore, these concepts are essential for empirical research (Yu et al., 2017). In Ethiopia, many studies were used the descriptive analysis (frequency, percentage, mean and standard deviation), binary logistic regression, Tobit, Correlation, and multiple regression analysis and examined the effects of CSR activities on banks’ performance in a financial perspective (Bimir, 2016; Kebede & Tegegne, 2018; Kesto, 2017; Lema, 2017; Mamo, 2017; Uvaneswaran & Ayele, 2017). Still, the empirical studies that address the link between lion international bank levels of CSR engagement with its gaining a competitive advantage in the Tigray region Ethiopia context using confirmatory factor analysis and structural equation modeling are not well documented. So, this study examined the linkage between different dimensions of CSR engagement (customer, employee, community & environmental) with the banking industry’s competitive advantage strategy and ranked the contribution of these stakeholders of CSR to their competitive advantage. To achieve this task, we start with the conceptual definition of CSR and competitiveness. Several theories support how related these two concepts, most particularly the stakeholder theory and resource-based theory. Then the conceptual review and hypotheses development is made; the measurement scales and reflective dimensions of the relationship between CSR and bank’s competitiveness are developed. The information about CSR activities and the competitive advantage of the lion international bank of Ethiopia is collected from randomly sampled employees through a questionnaire survey. The conceptual model with the collected data analyzed by using confirmatory factor analysis and structural equation model. The results and discussion of the causal relationship between CSR and competitive advantage are presented. Finally, the study summarizes and concludes the main findings, limitations, and future research directions are provided.

2. Literature review

2.1. Conceptual definition

The definition of CSR is the social responsibility of a business should encompass society’s economic, legal, ethical, and philanthropic expectations of a company or organization, and that companies along with meeting their economic and legal obligations, should also be ethical and good corporate citizens (Carroll, 1979, 1991). The CSR has the economic component that is the basic function of business does for itself in the society while the non-economic component of CSR is the business does for others (Carroll, 1999). A distinction can be made between those that seek only to reduce potential risk and meet stakeholder expectations, known as responsive CSR, and those that proactively work to reduce negative and increase positive social and environmental impacts, known as strategic CSR (Porter & Kramer, 2006). These two approaches heavily influence the degree to which CSR values are incorporated into the company’s business model and therefore, the likelihood of increased competitiveness based on social and environmental responsibility.

2.2. Theoretical framework

Consider the stakeholder theory, the stakeholders are those groups or individuals who can affect or are affected by the achievement of organizations’ objectives or are those actors with a direct or indirect interest in the company (Freeman, 1984). These include; the owners, employees, customers, local communities, the environment, and the society at large (Carroll, 1991; Turker, 2009). For example, the strong education and healthcare systems create a productive workforce that companies can depend on. Utilizing these assets, a company can provide jobs, wealth, and innovation to society, improving the standard of living and social conditions (Porter & Kramer, 2006). Moreover, companies are responsible to stakeholders, for their behavior about human rights, business ethics, environmental policies, corporate governance, diversity, community development, and job creation problems (Ljubojevic et al., 2012). Mishra and Suar (2010), firms that establish a relationship with their stakeholders beyond market transactions gain competitive advantage. Since stakeholder engagement in CSR improves the financial performance of firms (Ansong, 2017).
In business, adopting CSR enables the firm to enhance its competitive advantage and create win-win relationships with its stakeholders, in addition to realizing gains from cost and risk reduction and legitimacy and reputation benefits, which are realized through the firm's financial performance. The firms garner support in the form of lower levels of employee turnover, access to a higher talent pool, and customer loyalty. Accordingly, the firm will be able to differentiate itself from its competitors. Synergistic value creation arguments hold that CSR activities may present opportunities for a firm that would allow it to fulfill the needs of its stakeholders and at the same time pursue its profit goals. The pursuit of these opportunities is only possible through CSR activities (Carroll & Shabana, 2010; Ljubojevic et al., 2012).

The resource-based theory of the firm is when the resources and capabilities are valuable, rare, imperfectly imitable, and non-substitutable; they can create differentiation and that constitutes a source of sustainable competitive advantage (Barney, 1991). The competitive advantage is the organization's resources, characteristics, or capacities that are hard to copy or surpass and give a better or ideal long-term position over contenders (Kimani, 2015; Maziriri & Liu, 2020). The CSR activities for example, environmental social responsibility may be used as a differentiation strategy (Branco & Rodrigues, 2006; McWilliams & Siegel, 2001; McWilliams et al., 2006). Thus, a firm should possess such intangible resources that competitors cannot copy or buy easily; as a result, can gain a competitive advantage in the market (Cho & Pucik, 2005; Hart, 1995). The theory has made emphasis on people as strategically important to a firm’s success has contributed to the interaction, convergence of strategy, and human resource management issues. The employee behavior and skill form an independent component of strategic human resource management that affects sustainable competitive advantage (Barney et al., 2001).

The competitiveness of companies determined by financial capacity, human and technological resources, innovations, operational efficiency, quality of goods/services, and customer satisfaction (Hong et al., 2010). The financial capacity provides an opportunity for a company to be independent of creditors and allows strengthening technological capacity, introducing innovations, strengthening the brand, and at the same time taking a strong position in a competitive market (Lu et al., 2020). The competitive advantage comes from firms' valuing actual and potential bundles of resources (Maxfield, 2008). The increased competition leads to financial sector development and efficiency. This, essentially, means lower cost, enhanced efficiency, greater product innovation, and improved quality (Hakam et al., 2013). With more competition, the financial sector ought to become less volatile with fewer financial crises and more robust and higher financial integrity (Serawitu, 2017).

2.3. Conceptual reviewing
The link between CSR and competitive advantage is often viewed as promising if social needs, environmental limits, and corporate interests are well coordinated within it. It provides mutual value for the company and society (Porter & Kramer, 2011). The competitive advantage strategy dimension is largely concerned with how a firm will compete to earn and sustain superior performance (Barney, 1991; Porter, 1980, 1991). Firms involved in CSR activities favor gaining support from stakeholders through customer loyalty, investment attraction, cooperation with partners, legitimacy from the community, and favorable media coverage (Branco & Rodrigues, 2006). Luo and Bhattacharya (2006) also pointed out that CSR contributes to a positive market value that can help managers to achieve a competitive advantage and greater financial benefits. Strategic CSR that a firm will make a most significant social impact and reap the greatest business benefits; and that a firm will choose a unique position doing things differently from competitors in a way that lower costs or better serve a particular set of customer needs (Porter & Kramer, 2006).

The CSR innovation as the willingness and the capacity to discover, adapt, evaluate, and exploit new technologies, products, services, or processes for the environmental and societal benefit (Brik, 2007). Many opportunities to pioneer innovations that will benefit both society and the firm's competitiveness can arise in the product offering and the value chain (Gugler & Shi, 2009; Porter &
Kramer, 2006). According to Panwar et al. (2016), differentiation is the creation of a product or service that is somehow unique from its competitors. It can achieve through design or brand image, technology, customer service, or other features that are valuable to customers. Therefore, the companies that want to meet a sustainable competitive advantage need to define CSR as a business strategy and to protect the business opportunities and power effectively manage the internal operational process to serve the demands of the external stakeholders and groups that put pressure on the corporation (Porter & Kramer, 2006). The linkage of CSR and competitiveness; describes how companies can improve their long-term business potential by linking the company's financial goals and its social goals (Porter, 1985). A firm’s long-term and above-average performance are based on its ability to achieve one of two basic types of competitive advantage. That is concerned with producing a product at a lower unit cost than competitors, thereby generating higher returns or with produce a product that is differentiated (innovation) from competitors, one in which consumers are willing to pay a higher price (Porter, 1980). While, another study suggested that firms tend to pursue a hybrid strategy rather than pure differentiation or low-cost strategies (Pertusa-Ortega et al., 2009).

2.4. Hypotheses development
CSR is the main factor that improves the competitive performance of the company. The implementation of the social responsibility program can contribute to the achievement of financial (economic) as well as many non-financial (social & environmental) benefits that contribute to successful business operations. The implementation of good CSR programs to profit maximization, achieving a higher reputation, enhancing position in the market, differentiation from other companies, potential rivals in the market, loyalty, and increase employee productivity. Moreover, minimize environmental costs (reduce waste), improving relations with the local community, and public institutions. The result of practical researches confirmed that the existence of a positive correlation between CSR activities and the competitive advantage of the corporation (Ghosh et al., 2001; Petrovic-Randelovic et al., 2015; Bird, Hall, Momentè, & Reggiani, 2007; Husted & Allen, 2001; Weber, 2008).

Based on Freeman’s (1984) stakeholder theory, the classification of CSR should be based on stakeholders. Following this theory, several works of literature review, four stakeholders’ of CSR (such as customers, employees, community, and environment) were selected for the banking industry context (Decker, 2004; Maignan et al., 1999; Mercer, 2003; Perez et al., 2013; Ruiz et al., 2009; Turker, 2009). Thus, the conceptual model of this study includes four main dimensions of CSR engagement of the banking industry with its competitive advantage (Figure 1).

2.4.1. The banks’ environment related CSR engagement and competitive advantage
The responsibility of a business to the natural environment is not only to avoid environmental harm but also to protect and improve the natural environment (World Commission on Environment and Development [WCED], 1987). A modern perspective on CSR, as older generations or less educated people, may have fewer concerns about the protection of the natural environment or the rights of future generations. The CSR to the natural environment and future generations is the first stakeholder and which perceived as a more-important stakeholder in the future

Figure 1. The conceptual model.
(Turker, 2009). Efficiently solving social and environmental problems determined by the ability of national economies to increase national wealth by respecting the basic principles of sustainable development (Petrovic-Randelovic et al., 2015).

The environmental information is one of the disclosures of social responsibility and also part of the branding of corporate identity that distinguishes one firm from another and strategically differentiates it from the competition (Gallardo-Vázquez & Isabel Sánchez-Hernández, 2014; Mobus, 2012). According to Capriotti and Moreno (2007), environmental responsibilities are factors that govern the formation of opinions about a firm’s reputation. The availability of information on social responsibility determines a predisposition to act pro-actively in sustainable development, and therefore achieve a better response in the environmental field (Gallardo-Vázquez & Isabel Sánchez-Hernández, 2014). CSR involves companies voluntarily choosing to improve their social and environmental standards and so reduce their negative impacts on the environment. It also includes investing in small-scale sustainable ventures in those countries and thereby promotes entrepreneurship (Militaru & Ionescu, 2006). There is a growing demand for companies to commit to greater social and environmental responsibility. The organizations that address environmental issues can affect the marketability of their products and their competitive position as well as their financial performance (Billing & Scott, 1995; Post & Altman, 1992). Based on this reviewed literature, the first research hypothesis is as follows:

**H1:** The banking industry CSR to environmental responsibility has a direct and positive influence on their competitive advantage

2.4.2. **The banks’ employee related CSR engagement and competitive advantage**

Employees are the key stakeholders of the organization, and they are involved in, contribute, and respond to the organization's CSR policies, especially those that are directly linked. The internal dimension of CSR is the treatment of employees in a socially responsible way, and it can determine the way employees will behave in the organization (Zulfiqar et al., 2019). Employment and other employee-related issues are critical factors that must be considered as happy and satisfied employees are productive employees who are overlooked by most companies (Elrehail et al., 2019). Training and development have a significant impact on employee satisfaction, employee satisfaction will promote increased employee willingness to pursue both prescribed and voluntary work, and satisfied employees contribute to competitive advantage for the business organization. It also improves the financial and non-financial performance of an organization.

The company socially responsible activity brings positive effects to the employees. The employees may be more motivated, loyal, and hardworking, and the firm may enjoy a competitive advantage. The employees can also be a vital input for the firms, and as stated in theory, improved human resources may lead to competitive advantage (Pearce & Doh, 2005; Porter & Kramer, 2006). The competitive workers provide for a company such benefits as an opportunity to implement advanced technologies and current projects by successfully pursuing long-term company’s strategy (Markota-Vukić, 2015). Thus, it is possible to set the following hypothesis.

**H2:** There is a direct and positive relationship between the actions the banking industry carries out on CSR to the employee and their competitive advantage.

2.4.3. **The banks’ community-related CSR engagement and competitive advantage**

Business organizations aim to adapt in a society with constantly changing consumers’ needs, based on socially responsible activities, such as attention to society’s needs, cooperation, the business effect on society analysis, involvement of social problems in business activity processes, and becoming part of the society. Moreover, economic responsibility could be described as the organization’s aim to maximize the profit, sell goods, or provide services, and at the same time satisfies
market needs. It aimed at increasing work efficiency, respecting the right of workers, reducing costs, installing new, innovative clean technologies, financial risk management, profitability assurance, and in this way contributed to raising the level of the world economy (Lu et al., 2020).

The CSR means the theory of the corporation that emphasizes both the responsibility to make money and the responsibility to interact ethically with the surrounding community welfare. The role of business is to create value for its shareholders, but in such a way that it also creates value for society, manifesting itself as a win-win proposition (Kassa, 2018). It is important to emphasize that the combination of social innovations and business models for shared benefits can boost a firm’s social performances. Companies express citizenship through their waste and pollution reduction processes, by contributing to educational and social programs, and by earning adequate returns on the employed resources (Uvaneswaran & Ayele, 2017). As a corporate citizen, Dashen bank of Ethiopia participates in various activities that have a positive impact on the wellbeing of the community (Dashen Bank, 2019). Based on these ideas, the authors propose the following hypothesis.

**H3:** There is a direct and positive relationship between the CSR to community development actions undertaken by banking industries and the extent of their competitive advantage

2.4.4. The banks’ customer related CSR engagement and competitive advantage

The corporate reputation gained through long periods of high customer satisfaction is a source of sustainable competitive advantage for firms (Matzler & Hinterhuber, 1998). Corporate reputation enables firms to attract customers. More satisfied customers mean enhanced reputations, more sales growth, more competitive advantage, and finally, higher levels of firm performance (Davies, 2003). Customer satisfaction and reputation are the main components of competitive advantage (Gupta, 2002). So, the corporate reputation has an influential and positive impact on competitive advantage by successfully differentiating it from competitors (Awang & Jusoff, 2009; Gupta, 2002). The CSR is the business strategy to achieve a sustainable competitive advantage through building a good position for firms in an extremely competitive market (ACCA, 2009). The higher level of competitive advantage enables the firm to create superior value for its customers (Dunk, 2007). In line with creating value for customers and achieving a higher level of customer satisfaction, create profits for itself through offering a high quality of products and services at a lower cost (Chi & Gursoy, 2009; Williams & Naumann, 2011). As a result, firms with a higher level of competitive advantage have a higher level of performance (Ma, 1993; Majeed, 2011).

The CSR could be an effective marketing strategy for banks to attract and retain customers (Al-Ghamdi & Badawi, 2019). CSR creates a loyal customer base when deciding to buy goods or services they notice whether a company respects its own as well as society’s interests to creates safe, clean, and justice community needs (Carroll & Shabana, 2010; Lu et al., 2020). Meeting customer needs through engagement in CSR can therefore help increase the sales volume as well the amount customers are willing to pay. The element that is influencing competitiveness is the quality of goods/services, which can ensure the loyalty of clients, consumers, and the creation of a positive business image and a good reputation (Li, 2011). Orel and Kara (2014) and Sindhu et al. (2017), customer loyalty is necessary for survival in competitive global markets. The customer satisfaction results to corporate achievement and competitive advantage (De Leon et al., 2020; Wang et al., 2004; Yang & Peterson, 2004). In line with these ideas, the following hypothesis is suggested.

**H4:** The customers related CSR undertaken by the banking industry directly and positively influences their competitive advantage
3. Research design

The data used for this study were taken from the employee of lion international bank (LIB) share companies (S.C.) of Ethiopia on the effect of CSR implementation on competitive advantage. This paper aims to assess the extent of CSR practices of LIB using a self-administered questionnaire survey. The study focused on lion international bank Share Company of Ethiopia serves its customers around the country using around 200 branches. However, half of the branches are located in Tigray regional states. Accordingly, a total of 28 branches of the company were selected as respondents that are located in northwestern and central zones of the Tigray region out of seven zones of the region. Then out of 448 total employees of these purposely selected branches; to determine the sample size simple random sampling with proportion was used with 0.5 proportions, 6.258% level of precision, and 99% level of confidence. Therefore, the sample estimated for the study was 217.96 = 218 employees from selected branches of lion international bank of Ethiopia. Furthermore, it is noted that the information of CSR activities is simultaneously shared through various communication channels in the organization such as an intranet, staff letters, employee meetings, team briefings, and corporate web sites. So that the employees are well aware of the progress of companies' CSR activities so that the unit of analysis chosen for the sampling method was appropriate. The stakeholders' opinions can be a more reliable way of measuring corporate social activities compared to alternative methods (Turker, 2009). Hence, this study measure of CSR activities of the Ethiopian banking industry based on internal stakeholder (employee) perception was used. A survey included a total of 218 questionnaire respondents (employees) working in the banking industry in Ethiopia in various positions. A survey was conducted from November to December 2020. After the data collected and processed, out of the total sample only 206 full completed questionnaires were returned, a response rate of 94.50 percent.

This paper questionnaire was developed with two parts; the first part includes background information of respondents and the second part consist of four stakeholders of CSR practice was included in the banking sector that is environment (ENV), employee (EMP), the customer (CUS), and community (COM) with its competitive advantage (CA). Each dimension of stakeholder and competitive advantage has given; six, seven, six, six, and five responsibilities (items), respectively that were derived from the reviewed literature. The proposed conceptual model (Figure 1) with the collected data was analyzed using the structural equation model (SEM), and confirmatory factor analysis (CFA) to test the validity of the overall model and to verify the hypotheses of the causal relationships between latent constructs. Therefore, the SEM is the appropriate method of data analysis, as testing the causal relationships between several latent variables that are beyond description and associations (Fornell & Larcker, 1981). The study used the STATA 15 statistical software.

4. Empirical results and discussion

4.1. Descriptive statistics

In this paper, the first part of the sample was based on the demographic characteristics: gender, age, educational level, work experience, and their position in Lion International Bank of Ethiopia. Table 1 shows the description of background information of the sample, which was presented the demographic characteristics of the bank employee. The respondents in this study were 206 bank employees working in the service industry in Ethiopia. In terms of gender, 74.27 percent of the respondents were male and 25.73 % were female. The study of Arlow (1991) shows that women have a greater CSR orientation in decision making. Regarding the ages of most of the respondents (61.17%) was ranged from 26 to 35 years, 25.24 percent are aged from 18 to 25 years and 13.59% are aged greater than 35 years. The age plays the most important role in customer CSR orientation and also the determining factors in the perception of CSR, with the youngest people showing the greatest interest in CSR (Arlow, 1991; Roberts, 1996). Most studies also have shown that aging is
accompanied by a loss of intellectual ability to process complex and non-frequent information such as CSR-related data. Thus, the younger customers being more socially concerned and are expected to evaluate more heuristics when constructing CSR images than older customers (Arlow, 1991; Morris & Venkatesh, 2000; Pérez & Rodríguez Del Bosque, 2015; Roberts, 1996; Turker, 2009). Based on the educational level, the majority of the respondent (89.32 %) are having a bachelor’s degree and 7.77 % are holding a master's degree while 2.91 % have done a diploma. Scholar Quazi (2003) demonstrated that people with a higher degree especially college degrees develop a more elaborate perception of the implications of CSR for both companies and society. They also exhibit a greater social orientation. Most of the respondents (70.39 percent) work experiences in the bank service sector were one to three years, 19.9 percent of the respondent work experiences were from 4 to 6 years and the remaining 9.7 percent of them had greater than 6 years. Moreover, it has been shown that 65.53 percent of the bank employee's position was customer service officer, 24.76 percent were accountant/auditor and 9.71 percent was manager.

### 4.2. Measurement scales

The measurement instrument and key stakeholder groups in the banking industry were identified through a literature review and developing the instrument items related to each dimension of CSR activities with the banks’ competitive advantage. In this paper the CSR measurement scales adopted for the banking industry context and based on stakeholder theory from the previous studies (Fatma et al., 2014; Sarro et al., 2007; Ruiz et al., 2009; Turker, 2009; Perez et al., 2013; Oberseder et al., 2013; Zhao et al., 2019; Eyasu & Endale, 2020; Elifneh, 2017; Pérez & Rodríguez Del Bosque, 2012a, 2012b). Therefore, the key stakeholders were identified in the banking sector: customers (CUS), community (COM), employees (EMP), and the environment (ENV). And also the responsibilities of each stakeholder dimension were identified. This implies that twenty-five items of the scale were generated and used for constructing four reflective dimensions of CSR that most required by bank industries, and particularly include CSR to the environment (items 1–6), CSR to the employee (items 7–13), CSR to customers (items14–19), and CSR to the community (items 20–25). Moreover, based on several works of literature reviewed, the five items (items 26–30) selected for measuring the competitive advantage (CA) dimension of the bank are through providing a high quality of products or services (Barney, 1991; Bataineh & Zoabi, 2011; Chang, 2011; Porter, 1985; Porter & Kramer, 2006; Wernerfelt, 1984), enhanced

| Variable          | Categories        | Sample | Percent |
|-------------------|-------------------|--------|---------|
| Gender            | Male              | 153    | 74.27   |
|                   | Female            | 53     | 25.73   |
| Age               | 18–25             | 52     | 25.24   |
|                   | 26–35             | 126    | 61.17   |
|                   | >35               | 28     | 13.59   |
| Education         | Diploma           | 6      | 2.91    |
|                   | Degree            | 184    | 89.32   |
|                   | Master            | 16     | 7.77    |
| Work experience   | 1–3               |        |         |
|                   | 4–6               | 41     | 19.9    |
|                   | 7–9               | 10     | 4.85    |
|                   | ≥10               | 10     | 4.85    |
| Position          | Manager           | 20     | 9.71    |
|                   | Accountant/Auditor| 51     | 24.76   |
|                   | Customer service  | 135    | 65.53   |

| Position          | Accountant/Auditor| 51     | 24.76   |
|                   | Customer service  | 135    | 65.53   |
its goodwill and reputation (Branco & Rodrigues, 2006; Chang, 2011; Gugler & Shi, 2009), improved its market share and sales volume (Bataineh & Zoabi, 2011; Chang, 2011; Chen et al., 2006; Luo & Bhattacharya, 2006), the reasonable price provided to services or products (Chen et al., 2006; Sigalas, Economou & Georgopoulos, 2013; Porter & Kramer, 2006; Porter, 1980) and commits itself in time to market (Bataineh & Zoabi, 2011; Chang, 2011; Flynn et al., 1995). So, all the measurement scales presented in this article are given in Table 2. As previously indicated by Bollen (1989), the validity of content is guaranteed by the literature review. The respondents were requested to indicate the extent to which the company has experienced each suggested observed variables of each dimension of CSR related practice and

| Latent construct                  | Items                                                                 |
|----------------------------------|----------------------------------------------------------------------|
| Environment Related CSR          | LIB develops environmental pollution prevention program (x1)           |
|                                  | The company maintains biodiversity of its local area (x2)              |
|                                  | The company participates in solving environmental problems of the local communities (x3) |
|                                  | LIB promotes environmental awareness by providing information to their employees & to stakeholders (x4) |
|                                  | LIB prevents any waste of resources from happening (x5)               |
|                                  | LIB compiles with the environmental laws, rules, and regulation to promote the environment (x6) |
| Employee Related CSR             | LIB encourages workers to have freedom of association (x7)            |
|                                  | LIB encourages its employees to develop real skills through training & development (x8) |
|                                  | LIB promotes environmental awareness by providing information to employees & to stakeholders (x9) |
|                                  | LIB promotes women to be in a senior position (x10)                   |
|                                  | The company pays an attractive salary to its employees (x11)           |
|                                  | The company encourages its employees to develop real skills through training & development (x12) |
|                                  | The company avoids workplace discrimination in all forms (x13)        |
| Customer-related CSR             | LIB strives to deliver quality products to its customers (x14)         |
|                                  | LIB provides a reasonable price for its products to customers(x15)     |
|                                  | LIB provides products to ensure the health & safety of customer(x16)   |
|                                  | The company provides truthful information about its products to the customers (x17) |
|                                  | LIB has management systems for customer satisfaction (x18)             |
|                                  | LIB has a mechanism to ensure effective feedback and consultation with customers (x19) |

(Continued)
competitive advantage (CA) using a five-point Likert scale; 1 = strongly disagree, 2 = disagree somewhat, 3 = neutral, 4 = agree somewhat, 5 = strongly agree (Table 2).

To address the research hypotheses, the data were used to perform a structural equation model (SEM) to determine how employees perceived CSR activities related to employees, environment, customers, and community constructed for the company's competitive advantage. The collected data were analyzed by using confirmatory factor analysis (CFA), SEM, and STATA 15 statistical software.

### 4.3. Goodness of fit, validity and reliability test of the model

In this paper, before addressing the SEM analysis, assessing the reliability, validity, and goodness of fit of the scales were tested to ensure that the model properly fitted the data. So, the survey instrument measurement scales were assessed with the goodness of fit, internal consistency/reliability, convergent validity, and discriminant validity to measure the CSR activities of the banks with its competitive advantage. For this purpose first and second-order confirmatory factor analysis (CFA) is performed using STATA 15 using the maximum likelihood estimation procedure. The authors incorporated the banking industry's competitive advantage as a second-order construct. The results of these analyses are presented in Tables 3–5.

The CSR related practice and competitive advantage of the banking industry outcomes goodness-of-fit measures of the CFA are shown in Tables 3 & 5. First, about first-order CFA the fit of the four dimensions of CSR (environment, employee, customer, and community) is a good fit as indicated by fit indices was significant (χ²(395) = 1457.267, RMSEA = 0.114, CFI = 0.774, TLI = 0.752, SRMR = 0.093, p-value<0.01), the results are shown in Table 3. Moreover, the second-order CFA confirmed that a good model fit, four dimensions of CSR activities and competitive advantage model of the Satorra-Bentler χ² and the other fit indices was significant (χ²(401) = 1535.59, RMSEA = 0.117, CFI = 0.759, TLI = 0.739, SRMR = 0.111, p-value <0.01), confirming the validity of the scale. The TLI and CFI values are higher than the minimum values suggested by Hair et al. (1998). The root means the square error of approximation (RMSEA) with a score of 0.080 also suggests that the model fit is acceptable (Browne & Cudeck, 1993). Hence, the model fits the data well.

### Table 2. (Continued)

| Latent construct                  | Items                                                                 |
|-----------------------------------|-----------------------------------------------------------------------|
| Community-related CSR             | LIB improves the quality of life in the community (x20)               |
|                                   | LIB offers financial support to the local community (x21)             |
|                                   | LIB supports several educational & health institutions (x22)          |
|                                   | LIB creates employment opportunity to the community (x23)             |
|                                   | The community considers LIB as a good corporate bank (x24)            |
|                                   | LIB sponsors different community activities to aims (x25)             |
| The competitive advantage of the firm | LIB provides high quality of products or services (y1)               |
|                                   | The company enhanced its goodwill and reputation (y2)                 |
|                                   | LIB improved its market share and sales volume (y3)                   |
|                                   | The LIB is provided reasonable price to services or products (y4)     |
|                                   | The company commits itself in time to market (y5)                     |
### Table 3. First order CFA results for different dimensions of CSR

| Latent variable | Measured variable | Standardized lambda \((\lambda)\) | \(R^2\) | Cronbach's alpha | AVE | Goodness of fit |
|-----------------|-------------------|-----------------------------------|-------|------------------|-----|----------------|
| Environment     | x1                | .74                               | .54   | 0.88             | 0.565 | \(\chi^2(395) = 1457.267\) (p = 0.000) |
|                 | x2                | .76                               | .58   |                  |      | RM SEA = 0.114 |
|                 | x3                | .78                               | .61   |                  |      | CFI = 0.774    |
|                 | x4                | .82                               | .67   |                  |      | TLI = 0.752    |
|                 | x5                | .66                               | .43   |                  |      | SR MR = 0.093  |
|                 | x6                | .74                               | .54   |                  |      |                |
| Employee        | x7                | .51                               | .26   | 0.82             | 0.403 |                |
|                 | x8                | .72                               | .52   |                  |      |                |
|                 | x9                | .70                               | .49   |                  |      |                |
|                 | x10               | .54                               | .29   |                  |      |                |
|                 | x11               | .73                               | .53   |                  |      |                |
|                 | x12               | .53                               | .28   |                  |      |                |
|                 | x13               | .67                               | .44   |                  |      |                |
| Customer        | x14               | .84                               | .71   | 0.90             | 0.618 |                |
|                 | x15               | .87                               | .76   |                  |      |                |
|                 | x16               | .83                               | .69   |                  |      |                |
|                 | x17               | .77                               | .59   |                  |      |                |
|                 | x18               | .65                               | .42   |                  |      |                |
|                 | x19               | .73                               | .53   |                  |      |                |
| Community       | x20               | .76                               | .57   | 0.86             | 0.520 |                |
|                 | x21               | .66                               | .44   |                  |      |                |
|                 | x22               | .71                               | .51   |                  |      |                |
|                 | x23               | .77                               | .60   |                  |      |                |
|                 | x24               | .74                               | .55   |                  |      |                |
|                 | x25               | .68                               | .46   |                  |      |                |
| Competitive advantage | y1           | .83                               | .68   | 0.93             | 0.726 |                |
|                 | y2                | .85                               | .73   |                  |      |                |
|                 | y3                | .86                               | .73   |                  |      |                |
|                 | y4                | .81                               | .66   |                  |      |                |
|                 | y5                | .89                               | .78   |                  |      |                |

**Note:** RMSEA (Root mean squared error of approximation), CFI (Comparative fit index), TLI (Tucker-Lewis index), SRMR (Standardized root mean squared residual)

### Table 4. Discriminate validity and descriptive statistics

| Latent constructs | Mean | Standard deviation | # of items | ENV | EMP | CUS | COM | CA |
|-------------------|------|--------------------|------------|-----|-----|-----|-----|-----|
| ENV               | 3.50 | 1.22               | 6          | 0.75 |     |     |     |     |
| EMP               | 3.73 | 1.21               | 7          | 0.35 | 0.63|     |     |     |
| CUS               | 4.46 | 0.90               | 6          | 0.13 | 0.41| 0.79|     |     |
| COM               | 4.25 | 0.99               | 6          | 0.24 | 0.32| 0.78| 0.72|     |
| CA                | 4.48 | 0.86               | 5          | 0.098| 0.27| 0.86| 0.83| 0.85|

**Note:** The main diagonal is the square root of the AVE; Off-diagonal elements are the correlations among constructs.
Table 5. Result of second-order CFA of the competitive advantage

| CA            | Path coefficient | SE | Errors | R²   | Goodness of fit |
|---------------|------------------|----|--------|------|-----------------|
| Environment   | .37*             | .067| .86    | .137 | x² (401) = 1533.593 (p-value < 0.01) |
| Employee      | .59*             | .058| .65    | .347 | RM               |
| Customer      | .94*             | .015| .12    | .882 | SEA = 0.117, CFI = 0.759, TLI = 0.739, SRMR = 0.111 |
| Community     | .93*             | .019| .14    | .862 |                 |
| Overall       |                  |    |        | .965 |                 |

*p-value <0.01

Figure 2. SEM path diagram of the causal relation between banking industry response to CSR activities and their competitive advantage.

The measurement model evaluates whether the conceptual constructs are properly measured by the observed items. This analysis was done about attributes of validity and reliability. The convergent validity is established when several items measuring the same construct strongly agree (i.e. converge) in their representation of the underlying construct that they were created to measure. The convergent validity test of the scale is used to verify that all the measured items represent their factor (Chau, 1997). Convergent validity is established if an average variance extracted (AVE) of 0.50 or greater is achieved for the constructs (Fornell & Larcker, 1981). This parameter expresses the amount of variance that a construct obtains from its indicators as against the amount due to measurement error. In the model, the AVE for factor; environment (0.565), the customer (0.618), community (0.52), and competitive advantage (0.726) meeting the criteria for convergent validity. Besides, the results of the CFA of thirty items with all the latent constructs of the model are shown in Table 3 and all items of the scale were significantly considered to measure the latent variables or constructs of the model and the standardized lambda's coefficient (λ) were more than .50 (JHair et al., 2006; Falk & Miller, 1992;
The internal consistency or reliability is the extent to which a variable or set of variables is consistent in what it is intended to measure (Hair et al., 2010). The reliability of the scale was assessed by computing the Cronbach’s alpha and the recommended minimum value of these statistics should exceed 0.7 (Hair et al., 2010; Nunnally, 1978). The Cronbach’s alpha value of all latent constructs or factors of CSR scale and competitive advantage of the industry was much higher than this suggested cutting value (Table 3). Therefore, all latent constructs of the model confirmed the reliability test.

Finally, the discriminate validity of the latent constructs is evaluated by examining the factor correlation (Kling, 2001) and the correlation values between latent constructs must be significantly different from zero, and there should not be any high or very high correlations (Anderson & Gerbing, 1988). The criterion used to evaluate discriminant validity is that the square root of the AVE for each construct must be greater than inter correlations with other constructs (Fornell & Larcker, 1981). The results presented in Table 4 confirmed that there was evidence of the discriminate validity of the model among the latent constructs. Hence, the CFA confirms the reliability and validity of the scales used.

Before discussing the SEM results, the authors present several descriptive statistics to understand how banking employees evaluated each of the constructs studied in this paper. The descriptive result in Table 4 showed that employees evaluated the banking industry CSR activities and better indicated for CSR related to their customer (mean = 4.46), community (mean = 4.25), employee (mean = 3.73), and environment (mean = 3.50), respectively from highest to lowest. While, the CSR activities related to the environment were among the poorest evaluated dimensions (mean = 3.50).

4.4. Structural equation model results

After the measurement model is evaluated and met the criteria for the goodness of fit, validity, and reliability test of latent constructs. This section addresses how banks’ industry CSR engagement (environment, customer, employee & community) relates to their competitive advantage. The proposed hypotheses are based on the conceptual model, to examine the effect of banks’ industry CSR engagement (environment, customer, employee & community) on their competitive advantage (Figure 1). And also, to explore to what extent the industry actively engage and support different dimension of CSR to explain their competitive advantage.

The next step was testing the hypotheses using the structural equation models (SEM) that the methodology proposed by Anderson and Gerbing (1988). The analyzed structural model having the explained variance of the endogenous variables (R²), the path coefficients or standardized regression weights (β), standard error (SE) of standardized coefficient or weight, and their significance levels (Table 5). The goodness of fit of a model is determined by the strength of each structural path. This was analyzed by using the R² value (explained variance) for the dependent latent variables, ranges between 0 and 1. Thus, for each path between constructs, the desirable values should be at least equal to or greater than 0.1 (Falk & Miller, 1992). Table 5 reveals that the R² value of the structural model was 96.5% which showed the good model fit that is model has high predictive power. This implies that the structural model result confirms that the predictive power of the competitive advantage variable on the endogenous variable customer, community, and employee in the bank industry. Explicitly, it can be noted that the latent variable competitive advantage can explain up to; 13.7% of the CSR to the environment, 34.7% of the CSR to the employee, 88.2% of the CSR to the customer, and 86.2% of the CSR to community wellbeing response of these bank industries constituting an important result of the study.

The interpretation of the standardized path coefficients shows the relative strength of the causal relationship between the latent variables of the structural model. This analysis should provide
standardized path coefficients exceeding values 0.2 and ideally 0.3 (Chin, 1998). All the estimated path coefficient of the causal relationships is presented in Table 5 and also in Figure 2 are significant and all the hypothesis of the structural model is satisfied. Similarly, all the factors related to CSR activities loaded significantly to the competitive advantage of the banking industry. As suggested by author Melo and Garrido (2012) trying to determine how CSR investments and performance imply larger benefits for companies from the management perspective. Therefore, this study results have demonstrated that the industry implementation of CSR related to customer, community, employee, and the environmental dimensions are significantly contributed or has a positive effect on its competitive advantage. This results in line with Marin et al. (2012) and showed a positive influence of CSR on the company competitiveness. Burke and Logsdon (1996) showed that CSR activities are part of the firms’ strategy may, therefore, be a great source of competitive advantage. Besides, examining the CSR area where banks need more visibility is significant for implementing successful marketing strategies (Fatma et al., 2014). Hence, this study examined the different dimensions of CSR of the bank industry according to their degree of importance or influence to its competitive advantage is as follows.

Among the stakeholders of the banking industry, the most important dimension of the structural model is customer-related CSR; it has a positive and direct relationship or effect on the company’s competitive advantage ($\beta = 0.94$, $SE = 0.015$, $p - value <0.01$). Therefore, the hypothesis $H_1$ is verified. The result of the analysis confirms that customers are the main stakeholders of the banking industry and their role in marketing service is very crucial. The customers are also played an important role in firm competitiveness, for the survival and growth of the business (Turker, 2009). Concerning Pérez and Rodríguez Del Bosque (2015), the CSR image as perceived by customers has begun to attract the interest of scholars and practitioners because it is believed to boost customer-related benefits, such as satisfaction, repurchase intentions, and customer willingness to recommend the company to other consumers. According to the previous researcher Fukukawa et al. (2007), customer’s expectations and opinions are considered to directly influence the design and effectiveness of corporate strategies. Rifon et al. (2004) also showed that the more altruistic motivations customers perceive in companies engaging in CSR, the greater their evaluation of corporate credibility. As a result, the higher levels of corporate credibility cause customers to construct positive attitudes towards companies (Lafferty & Goldsmith, 1999).

The study results obtained tell to what extent the community is a desirable dimension of CSR for the company competitive advantage is ensured in the market. So that the community is the second-rated dimension of CSR activities and had a positive and direct effect on the company’s competitive advantage ($\beta = 0.93$, $SE = 0.019$, $p - value <0.01$). As a result, the hypothesis $H_2$ is verified. The positive result indicated that banks in Ethiopia engage in CSR activities related to community development that contribute to its competitive advantage. This result is consistent with Fatma et al. (2014). To overcome the critical challenges of the companies, it must rethink their role in society and consider themselves as socio-economic agents contributing to the human, civic and social progress of the community as a whole (D’Aprile et al., 2012). It also noted that a positive relationship between CSR engagement and firm efficiency, and conclude that this positive effect is largely driven by CSR initiatives labeled as community-level CSR, that is, corporate socially responsible acts focused on servicing the local community. Firms that are more reliant on the local economy are more likely to engage in socially responsible actions at the local community-level (Newman et al., 2020). Moreover, the research result found that a differentiation competitive strategy is positively related to small firms’ community engagement. Similarly, small firms that focus on differentiation are also likely to invest more in community engagement measures (Panwar et al., 2016).

The CSR-employee strategy aims to achieve organizational competitive advantage. The banking industries carrying out responsible actions to the employee-related dimension of CSR to see to what extent its contribution to the competitive advantage. Therefore, the results showed that the employee is the third relevant dimension of CSR and has a positive and direct effect on the
company’s competitive advantage ($\beta = 0.59$, $SE = 0.058$, $p – value <0.01$). Accordingly, the hypothesis $H_3$ is verified. In other words, the estimated structural path that relates to competitive advantage response with employee-related CSR was confirmed. This finding is not in line with the previous researcher Fatma et al. (2014). Moreover, previous research by Barney (1991) showed that a company’s human resources have been underlined as the greatest source of sustainable competitive advantage. As indicated, but the strategic implementation of the company cannot only fall to skilled individuals who work well on their own. The company must establish mechanisms to add individual competencies and create the human capital of the company (Díaz-Fernández et al., 2014). Like so, Barney and Wright (1988) pointed out that the competitiveness of the company increases if its human resources are qualified and make up a valuable and unique human capital. Lepak and Snell (2002) showed that human capital is valuable if the employees contribute to improving organizational efficiency, collaborating in the reduction of costs, or providing additional benefits to clients. In contrast, human capital is unique or firm-specific if it is scarce and specialized in the company. When both situations occur at once it is said that human capital contributes to the competitiveness of the company. If CSR helps incentivize and motivate workers and makes it easier to attract highly qualified employees, we expect to find a positive association between CSR and firm-level productivity, through an employee inspiration effect (Akerlof & Kranton, 2005).

It is important to note that according to the company’s strategic CSR priorities for their competitive advantage. Thus, this study has shown that the environment based CSR is the significantly least rated dimension as compared to other dimensions of CSR and showed that a positive and direct impact on the company’s competitive advantage ($\beta = 0.37$, $SE = 0.067$, $p – value <0.01$). Thus, the hypothesis $H_4$ is verified. It means that the environment based CSR activity that was implemented by the banking industry influence least their competitive advantage. About the positive impact of organizations’ environmental response to their stakeholders’ through CSR activities on the banks’ competitive advantage, it could be suggested that boosted its reputation and goodwill among the host communities and finally, contributes to its long term financial benefits. This result is aligned with the previous studies (Fatma et al., 2014; Foretica, 2011). Moreover, the environmental response of small and medium business enterprises contributes to increasing their disclosure of information, both inside and outside the firm (Gallardo-Vázquez & Isabel Sánchez-Hernández, 2014). Also, the potential of environmental investments for firms to differentiate themselves from others (Lin, Tan & Geng, 2013; Reinhardt, 1998). On the other hand, according to the research result of Panwar et al. (2016), small firms do not appear to use their engagement in environmental management as a way to differentiate themselves from their competitors’ strategies.

5. Summary and conclusions
The objective of this paper was to examine the industry strategies through which dimension of CSR engagement (customer, employee, environment, and community) affects their competitive advantage and ranked the contribution of these stakeholders of CSR to their competitive advantage. Hence, to answer these objectives, a detailed study was performed through the literature review and the multivariate analysis. After reviewed the previous literature, the measurement scales and reflective dimensions of CSR activities with the banking industry’s competitive advantage were developed. The study analyzed the influence of different dimensions of CSR practice on banking competitive advantage using CFA and SEM. This study used a cross-sectional data of 28 branches of Lion International Bank of Ethiopia. Based on the CFA confirmed that the good model fits the data of four dimensions of CSR and the competitive advantage model. Moreover, the study results confirmed that the survey instrument measurement scales tested for internal consistency/reliability, convergent validity, and discriminant validity was satisfied to measure the CSR activities of the banks with its competitive advantage.

The results of this study suggest that there was a causal relationship between competitive advantage and CSR through Stakeholders for the banking industry. Explicitly, separate stakeholders of CSR implementation (customer, community, employee, and environment) had a positive influence on the bank’s attached elements of competitive advantage. Since the banking
industry might have a strong strategic objective of CSR activities. The results of the empirical study also revealed that different stakeholders of CSR practice of the bank industry to their degree of influence from largest to lowest for its competitive advantage are customer, community, employee, and environment, respectively. Moreover, the banks are more concerned about customer-based CSR and are considered a great factor for its competitive advantage. On the other hand, banks gave the least emphasis on environmental-related CSR for example, develops an environmental pollution prevention program, maintains biodiversity, participates in solving environmental problems, promotes environmental awareness, prevents any waste resources from happening, and complies with the environmental laws, rules and regulations. Hence, the bank managers should give more emphasis on environment-related CSR and integrating it with the firm’s business operation that might have a high impact on the firm’s competitive advantage, helping them to ensure sustainable development. The bank industries should also be willing to explicit their full capabilities to find and implement solutions to CSR problems, even if the company had nothing to do with creating the problem.

This study has significantly contributed; first, to the literature of the linkage between banking industry CSR engagement and their competitive advantage in the developing country perspective through the internal stakeholder (employee) perception. Second, to establish which stakeholders of CSR are more targeted strategies followed as the company’s competitive advantage. Finally, the business managers may use the findings to design more effective dimensions of CSR strategies to their competitive advantage.

6. Limitations and future research directions

There were some limitations to this study. First, the measurement scale did not cover every stakeholder of the banking industry. Only some representative stakeholders were selected to measure CSR engagement and can contribute to sustainable competitive advantage. Second, depending on the selected sample, the current study reflects only the perception of employees, the internal stakeholder of a business. However, the perception of other stakeholders might also be assessed in further studies. Moreover, the generalization of our results is limited to the lion international bank of Ethiopia.

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