

## CORPORATE SOCIAL RESPONSIBILITY AND PROFITABILITY: EXPLORING SCHWARTZ AND CARROLL'S THREE-DOMAIN MODEL

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| Reçu 22/12/2022 | Accepté 30/12/2022 | Publié en ligne 01/07/2023 |
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### **Summary:**

The study examines effect of corporate social responsibility on profitability of deposit money banks with an emphasis on Schwartz Carroll's three-domain model. Survey research design was used for the study. The source of the data is primary source and the data were gathered through administered questionnaires. The study employed ordinary least square regression analysis. The study found that economic and ethical responsibilities have positive and significant effect on profitability of deposit money banks in Nigeria while legal responsibility has a negative but significant effect on deposit money banks in Nigeria. The study concluded that the component of Schwartz and Carroll's three-domain model has positive effect on profitability of deposit money banks in Nigeria. In view of this, the study recommends that the management of deposit money banks should not view legal responsibility as social cost rather social investment and this will create greater social acceptance and prestige for the banks in environment where they operate.

**Keywords:** Corporate Social Responsibility, Profitability, social cost, social investment, Schwartz and Carroll's Three-Domain Model.

**Jel Code:** M14, L25

## **I- Introduction :**

Corporate social responsibility of an organization integrates social, environmental and economic consideration into decision making structures and processes of service rendering and production. This is in consonance with the view of Van Marrewijk and Verre, (2003) that organisations demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders. Social responsibility can be viewed from three perspectives which includes; obligations, reaction and response. Social obligation is concerned with the society's request that firms or organizations provides for all goods and services, so also providing opportunities for every one desiring to gainfully participate in organizational activities. Based on the preceding assertions, it is imperative to say that corporate social responsibility caters for different stakeholders which includes; shareholders, customers, suppliers, Government, host communities, employees, the general public among others. In order to respond to increasing social, economic and environmental demands, organizations are to be more concerned with what happens around them. This is in line with the view of Gichohi (2016), that business organisations cannot operate in a vacuum but in a complex and dynamic environment where corporate social responsibility serves a tool for competing aggressively.

In spite of this, Friedman (1970) posits that corporate social responsibility activities by any organization will be worthwhile if and only if it has a return or an economic advantage to a firm in the future. He believes that every organization should be profit oriented by seeking to exclusively maximize the value of shareholders. Based on this assertion, vast number of researches has been conducted on what effect CSR has on performance of an organization. Evidence from the literature reviewed that there is no consensus among the researchers as some of the studies such as Chen and Wang (2011), Kasim (2012) Mustafa, Othman and Perumal (2012) showed positive effect while some of the studies such as Rahmawati and Dianita (2011), Lioui and Sharma (2012) revealed negative, but some of the studies revealed mixed findings like those of Soana (2011), Dinsmore (2014) As a result of the divergence of findings, the area of this study remains afresh earnestly awaiting further investigation. The study examines the effect of CSR on profitability of deposit money banks in Nigeria with an emphasis on Schwart and Carroll's Three-Domain model. The essence of using this model is to capture various views of previous scholars on CSR. The fundamental questions in this study are: Does ethical responsibility have effect on profitability of Deposit Money Bank in Nigeria? Does legal responsibility have effect on profitability of Deposit Money Bank in Nigeria? Does economic responsibility have effect on profitability of Deposit Money Bank in Nigeria? In line with this research question, three hypotheses are formulated as; ethical responsibility has no significant effect on profitability of Deposit Money Banks in Nigeria; Legal responsibility has no significant effect on profitability of Deposit Money Banks in Nigeria; Economic responsibility has no significant effect on profitability of Deposit Money Banks in Nigeria. To answer these questions and test the hypotheses the remaining part is structured as follow: section two reviews the related literature and theory that underpin the study, section three outlines the methodology and model specification adopted for the study. Data analysis and discussion were presented in section four while section five concludes the paper and proffer recommendations.(the data were not presented only results).

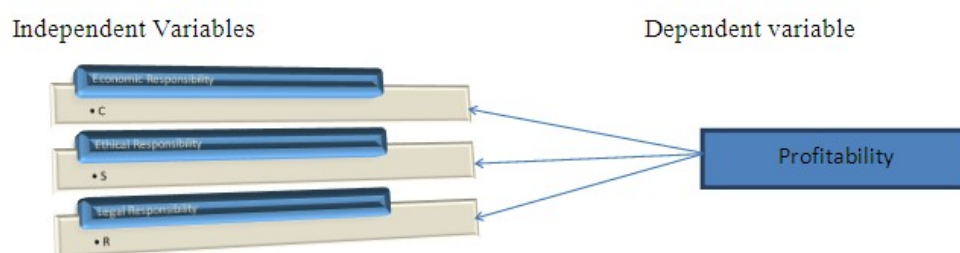
## II – Literature Review

This section focuses on the review of related literature on the effect of Corporate Social Responsibility on profitability of Deposit Money Banks. In an attempt to discuss this, this section concentrates on the conceptual framework, empirical review and theoretical framework. The concept of Corporate Social Responsibility (CSR) is one that has been evolving over time from the period when it first attracted formal attention most notably, in the works of Bowen (1953). Corporate Social Responsibility was defined as ‘the obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of society’. Corporate Social responsibility arises out of the notion that an organization should not pursue solely its economic objectives given the fact that it exists within an environment or society that concurrently influences and is influenced by its operations.

Carroll (1979) reconcile with Carroll, 1991 which correspondingly introduced the ethical and philanthropic dimensions to the economic and legal aspects of a business’s operation. These dimensions were patterned in order of the most basic- the economic responsibility for profit maximization, the legal responsibility for compliance with laws and regulations of the environment, the ethical responsibility for fair and just conduct of business activities and the philanthropic responsibility for promoting society welfare in terms of quality of living (Wood 1991). Contrary to this, Schwartz and Carroll’s model does not include philanthropic component and their model focuses on economic, ethical and legal responsibilities that an organisation engages in. They omitted the philanthropic responsibility was to avoid misleading result because it can be classified as either ethical or economic act depending on the reason behind the action.

The most common measure of bank performance is profitability. Generally, accounting profits are the difference between revenues and costs. From the literature the most commonly used profitability ratios are return on asset and return on equity. Return on assets (ROA) is net profit/total assets, it shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments (Ahmed, 2009). Return on assets indicates the profitability on the assets of the Bank after all expenses and taxes (Van 2005). It is a common measure of managerial performance (Ross, Westerfield & Jaffe 2005). Thus, the study adopts return on asset as a measure of profit. The study shows the conceptual relationship between CSR and profitability in the diagram below;

**Figure1: diagrammatic Relationship between CSR and Profitability**



Source: Authors’ Specification, (2019)

In spite of this conceptual linkage some of the previous studies that have been documented are as follow; Uwaloma and Egbide (2012) examined corporate social responsibility and financial leverage. The study used sample size of 41 listed companies in Nigerian stock exchange for the period of 2008. Multiple regression analysis was employed to analyse the data. The study revealed that there is a significant negative relationship between firms' financial leverage and the level of corporate social responsibility disclosures. The study concluded that an improvement in corporate social responsibility will reduce the financial leverage of firms. Adeboye and Olawale (2012) conducted a study on corporate social responsibility and business ethics as effective tools for business performance in Nigerian banks.

The study adopted a purposive sampling technique which covers sample size of 200 executives and employees in banks. The study employs student t-test to test the difference between financial performance and ethical standard of doing business. The result of the study showed that there is no significant difference between financial performance and ethical standard of doing business. The study concluded that adoption of corporate social responsibility does not improve the performance of banks in Nigeria. In the same token, Adeyanju (2012) worked on CSR and financial strength in the banking industry . The study used data collected from communication and banking industry .

The data were gathered through secondary source and analysed using both regression and correlation analyses. The result of regression revealed a strong and significant relationship between CSR and societal progress. The study concluded CSR plays a significant role in societal progressiveness in terms of environmental and economic growth. Richard and Okoye (2013) examined the effects of corporate social responsibility on the deposit money banks in Nigeria the study adopted a descriptive survey design approach and content analysis of web reports of the banks used. The study reveals that CSR has great impact on the performance and growth of money deposit banks in Nigeria of which it also impacts on the society by adding to the infrastructures and development of the society.

A study by Ondieki (2013) examined the association between CSR practices and corporate financial performance. Primary and secondary data available as at 31st December 2012 for the 9 companies listed in the commercial sector was collected. The study used descriptive and inferential analysis to assess the association. Ordinary least squares regression was applied. The study established that there was a positive association between CSR practices and corporate financial performance. Kipruto (2014) studied commercial banks in Kenya and examined the influence of CSR on financial performance. The study utilized secondary data which was sourced from audited financial statements of the commercial banks, annual reports, websites and publications. The study employed eight out of 44 commercial banks studied covering over the five year period (2009-2013). The study adopted regression analysis to analyse the data. The study findings were that expenses on social course have an effect on FP of commercial banks in Kenya. The study concluded that not all commercial banks reported their CSR involvement. In a similar study, Iqbal, Ahmad, Hamad, Basir, and Sattar (2014) investigated CSR and its possible impact on firms' financial performance in banking sector of Pakistan.

The study utilized secondary data extracted from the annual published accounts of banks in Pakistan. The study employed simple regression in analyzing the data. The study used donation as components of CSR as independent variables and net profit margin and earning per shares are dependent variables. The result of the study showed that there is a positive significant relationship between CSR and financial performance of the firms, and it was recommended that firms should have CSR policy that should review periodically an implementation policy and such should be approved by the Board of Governors.

Ajide and Adremi (2014) (reconcile with Ajide and Adremi 2012 on p.13) carried out a study the effects of corporate social responsibility activities disclosure on corporate profitability. The study made use of the annual reports and accounts of twelve commercial banks in Nigeria for the year 2012. The study adopted multiple regression analysis of ordinary least square (OLS) for data analysis. The study found out that banks size and CSR disclosures have a positive relationship with the profitability of banks while owner equity has negative association with and profitability. The study concluded that when banks carry out CSR activities and are committed to impacting and improving the well-being of people these return are capable of improving banks patronage and profitability.

Madugba and Okafor, (2016) examined the impact of CSR on Earning per Share (EPS), Returning on Capital Employed (ROCE) and Dividends per Share (DPS) of listed banks in Nigeria. Simple regression analysis was employed by the researches in testing the data collected from the annual published financial statements of the selected banks. The regression results showed that EPS and DPS have negative significant relationship with CSR while ROCE has a positive significant relationship with CSR. The study concluded that the government should by way of legislature through regulatory authorities compel financial institutions to embark actively in CSR, also CSR should be seen as an investment and reported as such in the financial statements of financial institutions. Cordelia and Amah (2017) examined the corporate social responsibility and profitability of commercial banks in Nigeria.

The study selected ten banks out of twenty one commercial banks in Nigeria. The time series data used were obtained from the annual reports of banks published in NSE website. Multiple regression analysis and student t-test were the statistical tools used to test the hypotheses formulated at 5% level of significance. The result indicated zero impact by PAT and TR while the impact of NA is negative. The study therefore concluded that expenditure on CSR is not significant enough and has not been positively affected by the financial performance of banks. Ngoc (2018) examined the relationship between corporate social responsibility (CSR) disclosure and financial performance of banks in Vietnam over the period 2011 – 2016.

The study adopted content analysis to approach CSR related data as well as ordinary least square (OLS) estimator to analyse data. The finding of this study indicated that there is a significant negative relationship between CSR disclosure and financial performance of commercial banks in Vietnam. The study concluded that additional requirements of the law for social responsibility for banks might result in poor performance and this might be as a result of economic slowdown during researched period. Wu, Dluhošová, and Zmeškal (2021) examined whether the profitability of different types of companies has a comparable impact on CSR measure in Chinese appliance listed companies.

A specific multi-attribute AHP (analytic hierarchy process) model was proposed to determine the CSR for the conditions of Chinese appliance listed companies. The interactive regression model serves to analyse the impact of a firm type. The regression results showed that for family firms, the impact of profitability on CSR is significant, while for non-family firms, the impact was not confirmed. Thus, evidence that family firms fulfill better CSR than non-family firms in the investigated Chinese sector is offered. The study concluded that it is essential to distinguish firm types, and the generalized findings are simplified and not valid.

From the literature reviewed, it is explicit that most of the studies examine aggregate effect of CSR on performance without breaking it down to economic, ethical and legal responsibility. Therefore, this study intends to fill the intellectual gap and thereby contributes to the body of existing knowledge by extending the frontier of the study beyond the aggregate analysis to component analysis following the Schwartz Carroll's three-domain model. The

study adopts the stakeholder and slack resource theories to underpin the positive relationship between CSR and profitability of deposit money banks. These theories support the facts that deposit money banks will only be able to make good profit if they use their resources to attend to society's need.

### **III- Methodology**

The study adopts survey research design in the collection of data for the study. The population(24) of the study is the deposit money banks formally registered and operating within the shore of Nigeria. Out of these twenty-one bank, five of the banks have their branches in Owo, and this made it easy for the researchers to have accessibility to their staff within the study period. The other remaining sixteen banks do not have any of their branches in Owo as at the time of the study. However, due to the difficulty in studying the entire deposit money banks in Nigeria, the study concentrated on the five banks located at Owo metropolis which form the adjusted population in Owo. The basis for this can be drawn from Central Limit Theorem (CLT) which state when a population is repeatedly sampled, the average value of the attribute obtained by those samples is equal to the true population value.

Thus, the sample of the study comprises of all the five banks located at Owo, Ondo state which include; First Bank of Nigeria, Skye Bank, Wema Bank, Eco Bank and Heritage Bank. The data for this study were gathered questionnaires of five (5) Linkert scale ranging from strongly agree (5), agree (4), undecided (3), disagree (2) and strongly disagree (1). The data collected were used to test the research hypotheses. The content of the questionnaire was validated by the experts in the field of accounting and finance to confirm if the questions were representative and relevant to the study. The reliability test was conducted through the use of chronbach alpha which test the internal consistency of the set of the statements contained in the administered questionnaires. The result of the chronbach alpha is 0.78 and this confirmed that there is high internal consistency among the set of the statements in the questionnaire administered.

The study administered 100 questionnaires (i.e 20 questionnaires per each bank) were administered and 87 questionnaires were returned (state reasons for the 13 unreturned questionnaire). The size was not derived using any technique, based on the fact that the adjusted population for this work is minimal and as a result of this, using a sampling technique will be of no use, because it will result to a very small sample size, which will not be good enough for field survey. The model specification for this study incorporates CSR variable which are economic responsibility, ethical responsibility and legal responsibility and profitability is proxy as return on assets. The model of interest for this study is specified below;

$$roa_i = \pi_0 + \lambda_1 leg_i + \lambda_2 eco_i + \lambda_3 eth_i + \varepsilon_i \dots\dots\dots 3.1$$

Where; roa represent return on assets, eco represents economic corporate social responsibility, eth represents ethical corporate social responsibility, leg represents legal corporate social responsibility,  $\pi$  represents constant,  $\lambda_1$ - $\lambda_3$  represents the coefficients, i represents the selected banks and  $\varepsilon$  represents error term. The model is estimated through the use of ordinary least square method with a significant level of 5 percent.

### **IV- Result and Discussion:**

Banks should render fiduciary services to all stakeholders of the firm - suppliers, customers. The hypotheses formulated in section one are tested here to prove either they are valid or invalid. The acceptance or otherwise of each hypothesis will be based on the information given in the analyzed data. The table 1 presents the descriptive statistic of the variables below;

**Table 1: Descriptive statistics**

|                    | N         |           | Minimum   | Maximum   | M e a n   | Std. Deviation    | S k e w n e s s |            | K u r t o s i s |            |
|--------------------|-----------|-----------|-----------|-----------|-----------|-------------------|-----------------|------------|-----------------|------------|
|                    | Statistic | Statistic | Statistic | Statistic | Statistic | S t a t i s t i c | Statistic       | Std. Error | Statistic       | Std. Error |
| l e g              | 8         | 7         | 2 . 4 0   | 5 . 0 0   | 3.932 6   | . 4 1 1 1 4       | - . 9 8 6       | . 2 5 5    | 2 . 3 4 6       | . 5 0 6    |
| e c o              | 7         | 9         | 1 . 8 0   | 4 . 6 0   | 3.124 1   | . 5 2 5 5 6       | . 4 9 6         | . 2 7 1    | . 2 3 8         | . 5 3 5    |
| e t h              | 8         | 6         | 1 . 6 0   | 5 . 0 0   | 3.420 9   | . 7 0 6 2 9       | - . 6 4 5       | . 2 6 0    | . 2 1 3         | . 5 1 4    |
| p e r              | 8         | 4         | 1 . 6 0   | 4 . 2 0   | 3.161 9   | . 4 5 1 4 8       | - . 7 1 6       | . 2 6 3    | 1 . 1 6 4       | . 5 2 0    |
| Valid N (listwise) | 7         | 3         |           |           |           |                   |                 |            |                 |            |

**Source: Output from SPSS Version 17, (2022)**

The results shows that the mean value of all the variables are positive and this reveal that there is an improvement in the legal aspect of corporate responsibility, economic aspect of corporate responsibility and ethical aspect of corporate responsibility as well as profitability of deposit money banks in Nigeria. Also, the result reveals the range of the variables alongside with their standard deviation, it is explicit that legal aspect of corporate responsibility has the lowest range and it is associated with least standard deviation value.

This implies that the legal variable is the least volatile while ethical variable is the most volatile because it has the highest range and highest value of standard deviation.

Apart from this, the scores of skewness shows that the entire variables are negatively skewed except economic variable. In addition, the kurtosis scores reveal the distribution pattern and none of the variable has excess kurtosis and this implies that there are no promising outliers among the variables. Having described the data, the study proceeds to correlation coefficients and the result is reported in the table 2 below:

**Table 2: Correlation Result**

|                             | l e g       | e c o     | e t h       |
|-----------------------------|-------------|-----------|-------------|
| l e g Pearson Correlation   | 1           | . 0 6 3   | . 3 1 2 * * |
| S i g . ( 2 - t a i l e d ) |             | . 5 8 1   | . 0 0 3     |
| N                           | 8           | 7         | 7           |
| e c o Pearson Correlation   | . 0 6 3     | 1         | - . 0 8 7   |
| S i g . ( 2 - t a i l e d ) | . 5 8 1     |           | . 4 5 4     |
| N                           | 7           | 9         | 7           |
| e t h Pearson Correlation   | . 3 1 2 * * | - . 0 8 7 | 1           |
| S i g . ( 2 - t a i l e d ) | . 0 0 3     | . 4 5 4   |             |
| N                           | 8           | 6         | 7           |

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

**Source: Output from SPSS Version 17, (2022)**

The Table 2 shows the correlation coefficients in-between each pair of the variables used-legal, economical and ethical. The first column shows the correlation between legal, economical and ethical. The first pair has the correlation coefficient of 0.063, and the second pair has 0.312. In the first column, legal corporate responsibility moves in the same direction with economic corporate responsibility and ethical corporate responsibility. The second column shows the correlation between economic corporate responsibility and legal corporate responsibility and ethical responsibility with the following coefficients value of: .063 and -.087 respectively.

This implies that economic corporate responsibility moves in the same direction with legal corporate responsibility but it moves in opposite direction with ethical responsibility. The third column shows correlation between ethical corporate responsibility, economic and legal responsibility with a correlation coefficient of 0.312 and -.087 respectively.

This signifies that the ethical corporate responsibility moves in the same direction with legal responsibility but it moves in opposite direction with economic corporate responsibility. Thus, there is evidence of moderate correlation coefficients, which invariably suggests that each pair of the variables is not perfectly correlated, and as such, the assumption of multi-collinearity or perfect collinearity is refuted. Thus, there is absence of multi-collinearity problem in our model. After this, the study proceeds to regression result and this is presented below;

**Table 3: Dependent Variables (Profitability)**

| Variables          | coefficients | Std. error | T-Stat. | Prob. |
|--------------------|--------------|------------|---------|-------|
| Leg                | 0.102        | 0.108      | .944    | 0.348 |
| Eco                | 0.138        | 0.083      | 1.652   | 0.103 |
| Eth                | .362         | .064       | 5.669   | 0.000 |
| Const.             | 1.089        | 488        | 2.230   | 0.029 |
| R-square           | .372         |            |         |       |
| F-statistic        | 13.642       |            |         |       |
| Prob (F-statistic) | 0.0000       |            |         |       |

**Source: Authors' Computation, (2022)**

From the regression result, it is evidence that the coefficient of legal corporate responsibility is 0.102 with an associated probability value of 0.348. This implies that legal corporate responsibility has positive but insignificant effect on profitability of deposit money banks in Nigeria. Also, the result shows that economic corporate responsibility has a coefficient of 0.138 with associated probability value of 0.103 and this implies that economic corporate responsibility has positive but insignificant effect on profitability of deposit money banks in Nigeria.

The above table shows that an R-square value of 0.372 indicates that 37.2% of the dependent variable (profitability of Deposit Money Bank in Nigeria) was explained by the independent variable (economic responsibility) and therefore, 56.8% of other factors (rather than economic responsibility) affects profitability of Deposit Money Bank in Nigeria. However, based on the adjusted r square result, shows that economic responsibility appear to be strong variable of predicting profitability of Deposit Money Bank in Nigeria. The probability value of F-statistics also indicates that the regression equations are significant since the value is less than 5 percent.

## - Discussion of Findings

From the results above it was found positive and significant effect of economic responsibility on the of Deposit Money Bank in Nigeria. This conforms to the instrumental theories of corporate social responsibility proposed by Garriga and Melé (2004). The explanation for this is that the corporate social responsibility of Nigerian deposit money banks is tailored towards profit maximization and Maximization of shareholder value. Also, the study revealed that ethical responsibility has a positive and significant effect on profitability of Deposit Money Bank in Nigeria. This implies if deposit money banks are ethically responsible, there will be an increase in their profitability.

This is in consonance with the ethical theories proposed by Garriga and Melé (2004). The explanation for this is that Nigerian deposit money, employees, stockholders, and the local community. This will promote goodwill and enhance increase in customers' patronage and invariably increase in profitability. The result also shows that legal responsibility has positive but insignificant effect profitability of Deposit Money Bank in Nigeria. This is contrary to agency theory which emphasised negative relationship between the corporate social responsibility and profitability.

## **V- Conclusion and Recommendation**

The study concluded that the component of Schwartz Carroll's three-domain model has positive effect on profitability of deposit money banks in Nigeria. In view of this, the study recommends that the management of deposit money banks should not view legal responsibility as social cost rather social investment and this will create greater social acceptance and prestige for the banks in environment where they operate. One of the limitations of the study is that simple ordinary least square was adopted, thus other studies are encouraged to adopt more robust statistics tool such as panel var, vector error correction model among others in order to contribute to the frontiers of knowledge

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