

Corporate Social Responsibility Expenditure and the Financial Performance of Quoted Firms in Nigeria

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Abstract:-The study assesses the impacts of corporate social responsibility (CSR) on the financial performance of some quoted firms in Nigeria. The study focuses on oil and banking sectors being the two sectors that mostly dominate the CSR activities in Nigeria. Profit after tax of the firms is used to proxy their performance while total expenditure on CSR, total asset, working capital and leverage ratio are used as independent variables in the model. Panel data analysis is adopted as the major estimating techniques and the results show that CSR expenditure of the firms though, have positive impacts on their performances but the effect is not significant. Total asset of the firms remains the most significant variable on their performances. The study also showed that the banking sector is more organized and unique in their approaches to CSR and its implication on their performances is more than the oil firms. It is recommended that firms in Nigeria should engender ways to make their CSR expenditure impact positively and significantly on their performances and relevant authorities should also beam more search light on the oil sector where diverse approaches to CSR exist.

Key words: Corporate Social Responsibility, Banking Sector, Oil sector, Performances

I. INTRODUCTION

In today's global world, organizations have many challenges to operate and earn profits. People have more knowledge about organizations, their products and services and the way organization's operate their businesses. People are more conscious about an organization's work for the prosperity of the society, the environment in which they operate and earn profits. Hence, companies are facing many problems with a new role, which is to fulfill the demands of the present generation in a socially responsible way. Organizations must take responsibility for the ways they operate in the societies and natural environment because their operations impact societies and the natural environment.

However, previous studies have focused mainly on the developed countries and there is less work done in determining the impact of corporate social responsibility (CSR) on financial performance in developing countries like Nigeria. In developing countries, most firms are not quite familiar with the importance of CSR and thus don't pay much attention to the concept of CSR. Nowadays people have more knowledge about the organizations and the work they are doing for the welfare of the society.

With growing scrutiny of business operations, organizations are increasingly being driven to satisfy the expectations of opinion formers, governments and customers in order to thrive. In essence, businesses adopting CSR principles believe that by operating ethically and responsibly, they have a greater chance of success. Businesses are increasingly demonstrating that well managed corporate responsibility actually supports business objectives, especially amongst large corporations where improved compliance, reputation and relationships have been shown to increase shareholder value and profitability.

The overall research problem that this study addresses is that despite the many boardroom talks held on CSR, implying that CSR is a prerequisite for good corporate leadership and governance (Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. 2007; Kitzmuelery and Shimshack, 2012; the available literature has not sufficiently established whether indeed there is any relationship between CSR spending and the corresponding performance of firms adopting these CSR practices especially in oil and gas and financial sectors. Is CSR centered on improving the financial performance, which is the underlying reason for a firm's existence or is it all about creating value to the society? Is there a nexus between CSR spending and the firm's reputation in terms of their operations and spread? Does CSR spending lead to increased market share of the organization? Further still, what aspect of CSR should be embraced most? Is there a focus on the CSR between the banking firm and the oil industries? If these issues are not investigated the organisations will continue to indulge themselves in activities that result in a waste of the ever-limited corporate resources. It is therefore imperative to study CSR and its impacts on the financial performance of firms in the Nigeria.

II. LITERATURE REVIEW

Ong'olo (2012) investigated the relationship between CSR and market share of supermarkets in the Kenya city of Kisumu for the period 2006 to 2010. He sought to determine the factors that motivated the practice of CSR amongst supermarkets in Kisumu. The findings revealed that there was a strong relationship between CSR and market share. Institutions that had invested more on CSR had high sales revenue. The researcher also realized that there was a positive correlation between market share index and CSR. Larger supermarkets preferred education, water and sanitation while

the other supermarkets preferred to support the less fortunate in the society as their CSR activities.

Okiro, Omoro and Kinyua (2013) tested the relationship between investment in CSR and sustained growth of commercial banks in Nairobi County, Kenya. The researchers sought to establish the relationship between banks' sustained growth and CSR. The findings revealed an increasing positive attitude towards CSR in terms of investment. There was a general agreement that CSR was essential for the success of the firm. Since commercial institutions work to generate profits by offering the best services to customers, they would provide proper care to retain its customers. The researchers found that investment in CSR activities had a positive effect on a bank's sustained growth. The findings further indicated that there was a weak positive relationship between the variables and that only 11% of banks' sustained growth could be explained by investing in CSR activities.

Kitzmuellery and Shimshack (2012), while studying economic perspectives on CSR, realized that individual preferences were the ultimate driving force behind any form of CSR. In the presence of social stakeholder preferences, firms may use strategic CSR to maximize profits, while not-for-profit may use CSR to satisfy shareholders' social ambitions. The study revealed that when people make donations or privately provide public goods, such as charity, there may be many factors influencing their decision other than altruism. Social pressure, guilt, sympathy or simply a desire for a "warm glow" may all be important. Within this framework two opposing perspectives on CSR can be taken. Firstly, CSR may constitute a special form of investment into innovation that may result in negative costs (net benefits) over time. Secondly, shareholder value maximization in general, as well as profit maximization in particular, can motivate CSR. Stakeholders may be endowed with respective social, environmental or ethical preferences. CSR treats the existence of social or environmental preferences as exogenously given and focuses on the interactions between firms and stakeholders. The study considered such impure altruism formally and developed a wide set of implications. In particular, the study discussed the invariance proposition of public goods, the sufficient conditions for neutrality to hold, the optimal tax treatment of charitable giving and calibrates the model based on econometric studies in order to consider policy experiments.

Amaeshi and Amao (2009) conducted a qualitative research study on CSR in transnational space, exploring influences of varieties of capitalism on expressions of corporate codes of conduct in Nigeria. Amaeshi and Amao wanted to examine the extent of Multinational Corporations'(MNCs) expression of corporate codes of conduct when operating in developing nations with differing institutions than those of developed nations. The corporate codes of conduct in the study included ethics, morality, and business principles (Amaeshi and Amao, 2009). The study was relevant because researchers had contended that MNCs weaken their CSR when operating in

developing nations such as in Nigeria (Amaeshi and Amao, 2009). A major strength of the study was the detailed summary of findings that informed the reader about how the researchers came to their conclusions. Amaeshi and Amao drew their conclusions from several capitalism theoretical frameworks and previous studies on CSR in MNCs in Nigeria, based on recognized stakeholders, the extent of CSR, treatment of labor standards, reference to international standards, environmental issues, and the enforcement and implementation of CSR. Amaeshi and Amao claimed that despite weak institutions in developing economies, MNC leaders adapt their organizations to the environment in which they operate. Multinational corporations are profit driven and have the ability to adapt to various environments.

Phillips Consulting Group, Nigeria, conducted an extensive survey study with 5,000 participants to determine stakeholder values for individuals who need support from organizations (Phillips, 2006). The number of individuals surveyed and the graphs and charts used to display the information gathered was a strength of this survey study. Nevertheless, Phillips (2006) did not describe the methodology, which prevents a replication of the research study. Phillips (2006) concluded that stakeholder expectations were in areas of health, education, poverty alleviation, and economic empowerment, which differs from CSR in developed countries. Phillips (2006) found that many Nigerian companies believed that marketing alone was CSR. According to Phillips (2006), many Nigerian business leaders give charitable donations but there is no formal CSR framework for selecting CSR activities. The problem with many Nigerian organizations is that the CSR focus is too broad and needs to be more specific to allow for better implementation (Phillips, 2006). However, Phillips (2006) surmised that many indigenous Nigerian firms that are not MNCs are practicing CSR.

Adeyemo, S. A., Oyebamiji, F. F. and Alimi, K. O. (2013) explored the meaning and practice of corporate social responsibility in relation to its impact on profitability (return on assets and return on equity) by using regression and product moment correlation. The result of the study revealed that indigenous firms perceived and practiced CSR as corporate philanthropy. It was found that the performance and reporting of social responsibility has a positive correlation with profitability, that is, return on assets of the banks. It was also revealed that the performance of CSR reporting has no correlation with return on equity. The study concluded that performance and reporting of social responsibility goes a long way in boosting the reputation, sales and profit margins of the firms.

III. METHODOLOGY

This aspect of the paper explains the methodology adopted to achieve the objectives of the study. It covers the model specification, sources of data and estimating techniques among others.

Model Specification

In the bid to track the nexus between corporate social responsibility and performance of the sampled firms, the models employed by Waddock and Graves (1997), McWilliams and Siegel (2000) was modified to ensure a well-controlled model, and are presented below:

$$PAT_{it} = f(TCSRS_{it}, TOA_{it}, WC_{it}, LEV_{it}, \dots) \dots \dots \dots (1)$$

Where: PAT=Profit After Tax , TCSRS=Total Corporate Social Responsibility Spending , TOA=Total Asset (measure of firms size) , WC=Working capital (measure of corporate liquidity)

LEV=Leverage ratio (Debt equity ratio which is a measure of capital structure/firm's leverage ratio), γ, δ = Coefficients, $\mu (s)$ = stochastic error terms, i = cross section unit , t = time period

Estimating Techniques

The study adopts panel data regression analysis to investigate the impact of CSR on the performance of some selected firms in Nigeria. The panel data procedure starts from the panel unit root test as it is important that all the variables included in the panel model are stationary.

Panel Unit Root Test

The conventional unit root tests no longer hold sway in the face of the advantages inherent in the panel unit root test. Levin, Lin and Chu (LLC) show that there is a considerable improvement in the power of Unit Root tests when using panel data other than the univariate testing procedures. The panel unit root test explores the data characteristics of the panel before proceeding to the panel co integration test. The idea is to test for stationarity of each variable used in the study.

Another method of panel unit test adopted for this study is Im, Pesaran and Shin (IPS) test.

$$\Delta Y_{i,t} = \alpha Y_{i,t-1} + \sum_{j=1}^{Pi} \Delta Y_{i,t-j} + \beta_0 + \beta_{1t} + \beta_1 X_{i,t} + \epsilon_{i,t} \dots (2)$$

Where β_0 is the constant, $X_{i,t}$ represents the explanatory variables, $\Delta Y_{i,t}$ is the explained variable, β_{1t} is a time trend

and P is the required lag length. The null hypothesis to be tested for the IPS is $H_0 : \alpha_i = 0$ for all "i"s while the alternative hypothesis is $H_1 : \alpha_i < 0$, for at least one i. The lag lengths are selected using the Akaike Information Criterion.

Robustness Tests for panel data

In other to make the finding of this work robust both fixed effect and random effect will be employed in estimating the data set and a Hausman-test conducted to determine the most appropriate for the study.

Sources of Data and Collection Techniques

Secondary data are sourced for this study. from the published annual reports and statements of accounts of the selected firms are data collected for variables such as profit after tax, total assets, total deposit liability for banks, the numbers of network spread (Proxy for market share) and CSR spending covering the period between 1999 and 2015. The data collected from the Annual reports and statement of accounts of the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) include the total number of banks with operation license and from the Nigeria Stock Exchange (NSE) was collected the list of the quoted oil and gas firms listed on the Exchange. Other information are also extracted from the Statistical Bulletins of CBN, and NDIC. The data for inflation rate were collected from the Federal office of statistics over the same period. This period is considered broad enough to be able to make a reasonable comparison between the two industries to ascertain the degree of their involvement in CSR and how it has impacted their financial performance and thereby facilitate the drawing of valid conclusions for the study to establish significant and dynamic relationships among the variables.

IV. RESULTS AND DISCUSSION

This aspect of the paper explains the empirical results from the data collected on the variables. It also discusses the implications of the results. It begins with the unit root test.

Unit Root Analysis

The unit root test is the first step under panel data analysis. It explores the data properties of all the variables included in the panel model. All variables must be stationary before panel data can be analyzed

Table 1. Panel Unit Root Test Result

Variables	TEST AT LEVEL			TEST AT FIRST DIFFERENCE		
	LLC	IPS	ADF	LLC	IPS	ADF
TCSRS	-2.95947**	-1.47903*	60.3818**	--	--	--
TOA	-3.69565*	-1.36259	45.2442	--	-7.7251*	115.931*
WC	-4.03189*	-0.55787	40.7137	--	-8.8508*	127.474*
LEV	-45.5912*	-17.1513*	104.495*	--	--	--
PAT	-5.75397*	-4.33151*	90.0585*	--	--	--

*(**) connote rejection of unit root hypothesis at 1% (5%) level of significance level

Source: E-view Computation, (2017)

Table 4.3 present results of Levin-Lin-Chu test (LLC), Im-Pesaran-Shin test (IPS) and ADF fisher Chi-square test statistics of unit root for continuous variables used in the study in the quest to describe stationary property of each of the variables. The test statistics is reported at level and first difference. Result showed that there is evidence to reject the null hypothesis of no unit root at level for all the variables used, based on all the three unit root test conducted, except in the case of total asset, and working capital which shows rejection of null hypothesis at level base on Levin-Lin-Chu test only. Given the rejection of the null hypothesis of no unit root for all the variables at level as reflected in table 1, it stands therefore that the possibility of spurious interrelation between variables of the model can be neglected, as the panel observation for each variables included in the models tends to be stationary at level without significance reflection of

disruption of the short run equilibrium relationship amidst variables.

In agreement with the argument of Baltagi (2005) and Entorf (1997) that there is no need to worry about stationarity and/or co-integration in panel data when dealing with small cross sectional unit and period, as inference from pooled OLS, fixed effect and random effect estimation is not misleading as such there is no need for panel co-integration test of the models estimated in the study.

Analysis of the effect of CSR on performance of quoted firms

As explained under the methodology, panel data analysis is adopted as the estimating technique for this study. After all the variables have been made stationary, the pool OLS is estimated and the result is presented in table 2

Table 2. Pooled OLS Estimation Result

Series: PAT TCSRS TOA WC LEV

Variable	Coefficient	Std Error	T-Test	Probability
C	4613.605	1727.968	2.67	0.008
TCSRS	1.352741	7.45662	0.18	0.856
TOA	.0213329	.0039849	5.35	0.000
WC	.0051772	.0070945	0.73	0.466
LEV	-172.246	97.39	-1.77	0.078

R-square= 0.3998, Adjusted R-square= 0.3890, F-statistics=37.14, Prob(F-stat)= 0.0000

(*) connotes significance at 5% level of significance.

Source: E-view Computation, (2017)

Pooled OLS estimation result presented in table 2 revealed that corporate social responsibility exert insignificant positive impact on profit after tax (PAT) of firms sampled in the study with coefficient estimate of 1.352741 ($p=0.856 > 0.05$). For control variables included in the model, coefficient estimate reported in table 4.10 stood at 0.0213329 ($p=0.000 < 0.05$) for total asset, .0051772 ($p=0.466 > 0.05$) for working capital and -172.246 ($p=0.078 > 0.05$) for leverage. R-square statistics revealed that about 40% of the systematic variation in profit after tax can be explained by corporate social responsibility, total asset, working capital and leverage ratio. However, the results of the pool OLS might not be reliable until the cross-sectional dependence test is conducted. Table 3. Presents the result of the cross-sectional dependence test.

Table 3 Restricted F Test of Heterogeneity (Cross-Sectional and Time Specific)

	F-statistics	Probability
Cross sectional	3.87	0.0000
Time specific	1.69	0.0498

Source: E-view Computation, (2017)

F-statistics reported in table 3 stood at 3.87 and 1.69 with probability values of 0.0000, and 0.0498 for cross sectional and period specific effects respectively. The probability values corresponding to the f-test statistics presented above revealed that there is enough evidence to reject the null hypothesis that differential intercept corresponding to each cross sectional specific units, and time period are equal to zero. It implies therefore that there are significant heterogeneity effect cross firms sampled in the study over time, thus invalidating the restriction of pooled OLS estimation in favour of two-way fixed effect estimation presented in table 4

Table 4: Fixed Effect (Two-way effect) Estimation Result

<i>Variable</i>	<i>Coefficient</i>	<i>Std Error</i>	<i>T-Test</i>	<i>Probability</i>
C	-1595.355	6217.25	-0.26	0.798
TCSRS	4.984367	8.105147	0.61	0.539
TOA	.0264204	.0045813	5.77	0.000
WC	.0018106	.0080956	0.22	0.823
LEV	-139.5525	94.88652	-1.47	0.143
Cross-sectional Effects				
DIAMOND BANK	-2500.427	5934.918	-0.42	0.674
FIRST BANK	-9941.135	6234.973	-1.59	0.112
GTBANK	13186.88	5788.718	2.28	0.024
FCMB BANK	242.8661	5988.611	0.04	0.968
UBA BANK	-4049.942	5863.996	-0.69	0.491
UNION BANK	-5881.489	5808.305	-1.01	0.313
ZENITH BANK	1940.507	6911.746	0.28	0.779
WEMA BANK	2354.229	6019.108	0.39	0.696
FIDELITY BANK	-1647.164	5810.54	-0.28	0.777
TOTAL NIG PLC	10.86954	48.92324	0.22	0.824
MRS PLC	8.680716	47.99045	0.18	0.857
OANDO PLC	22.51852	48.15561	0.47	0.640
FORTE OIL	9195.862	8229.641	1.12	0.265
CONOIL	16630.41	6042.368	2.75	0.006
MOBIL	11604.68	6045.523	1.92	0.046
ETERNAL OIL	25932.15	6046.935	4.29	0.000
Period- effect				
2000	964.7536	6595.445	0.15	0.884
2001	3303.135	6595.487	0.50	0.617
2002	1081.615	6595.565	0.16	0.870
2003	2249.667	6596.201	0.34	0.733
2004	1960.271	6596.213	0.30	0.767
2005	7955.675	6608.664	1.20	0.230
2006	4618.945	6622.303	0.70	0.486
2007	6013.854	6681.717	0.90	0.369
2008	1865.604	6976.079	0.27	0.789
2009	-19060.05	6840.084	-2.79	0.006
2010	-526.7939	6734.104	-0.08	0.938
2011	-19070.66	6832.579	-2.79	0.006
2012	1798.571	7154.732	0.25	0.802
2013	-6359.154	7152.008	-0.89	0.375
2014	-6457.891	7301.263	-0.88	0.378
2015	-8457.766	7229.407	-1.17	0.243

R -square= 0.5946, Adjusted R -square=0.5256, F -statistics=8.62, $Prob(F$ -stat)=0.0000

(*) connotes significance at 5% level of significance.

Source:E-view Computation, (2017)

Two-way effect estimation result presented in table 4.14 revealed that corporate social responsibility spending exert positive insignificant impact on profit after tax with coefficient estimate of 4.984367 ($p=0.539 > 0.05$), when both cross sectional effect and period effect is incorporated as intercept terms in the model. Estimates reported in table 4.14 for total asset stood at .0264204($p=0.000 < 0.05$) which connotes that total asset positive impact is significant on profit after tax. Coefficient estimate reported for working capital stood at .0018106($p=0.823 > 0.05$) revealing that the impact of working capital on profit after tax is positive but insignificant. On other hand estimation result showed that leverage ratio exert insignificant negative impact on profit after tax with coefficient estimate of -139.5525 ($p=0.143 > 0.05$). Reported deviation intercept term stood at -2500.427, -9941.135, 13186.88, 242.8661, -4049.942, -5881.489, 1940.507, 2354.229, -1647.164, 10.86954, 8.680716, 22.51852, 9195.862, 16630.41, 11604.68, 25932.15, for Diamond bank, First bank, Guaranty trust bank, FCMB, UBA, Union bank, Zenith bank, Wema bank, Fidelity bank, Total Nig Plc, MRS Plc, Oando Plc, Forte Oil, Conoil, Mobil and Eternal Oil respectively, while period deviation intercept terms stood at 964.7536, 3303.135, 1081.615, 2249.667, 1960.271, 7955.675, 4618.945, 6013.854, 1865.604, -19060.05, -526.7939, -19070.66, 1798.571, -6359.154, -6457.891, and -8457.766 for year 2000, 2001,2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012,2013, 2014 and 2015 respectively. R-square statistics reported in table 4 showed that about 59% of the systematic variation in profit after tax can be explained by corporate social responsibility spending, total asset, working capital and leverage ratio when both cross sectional and period specific effect are incorporate as intercept terms in the model.

Table 5: Hausman Test

Null hypothesis	Chi-square stat	Probability
Difference in coefficient not systematic	14.48	0.0059

Source: E-view Computation, (2017)

Table 4.15 reported chi-square statistic of 14.48 and probability value of 0.0059. This result showed that there is enough evidence to reject the null hypothesis that differences in coefficients of fixed effect estimation (two-way fixed effect) and random effect estimation is not significant. Thus, making fixed effect two-way estimation presented in table 4. the most consistent and efficient estimation for analyzing impact of corporate social responsibility on financial performance measured in terms of profit after tax.

Table 6: Other Post Estimation Test

Wald test		
Null hypothesis	Statistics	Probability
Panel homoscedasticity	64.6378	0.6532
Pesaran test		
Null hypothesis	Statistics	Probability
No cross sectional dependence	4.915	0.5412
Wooldridge test		
Null hypothesis	Statistics	Probability
No AR(1)panel autocorrelation	56.2695	0.1545

Source: E-view Computation, (2017)

Result of post estimation test conducted to confirm if the model estimated toward analyzing impact of corporate social responsibility on performance is in tune with basic assumptions underlining panel estimation. The result as presented in table 6 showed that there is no evidence to reject null hypothesis on panel homoscedasticity, null hypothesis of no cross-sectional dependence and null hypothesis of no AR (1) panel autocorrelation, given the reported probability statistics of 0.6532 > 0.05 for Wald test, 0.5412 > 0.05 for Pesaran test, 0.1545 > 0.05 . Hence post estimation test reported in table 6 validate assumptions of equal variance of residual terms, cross sectional independence and absence of serial autocorrelation, thus reflecting the estimated model is fit for inferential analysis.

V. CONCLUSIONS AND RECOMMENDATIONS

The results from the analysis have shown that total asset which measures the size of the firms is an important variable that determines the performance of the firms and not the expenditure on the CSR. However, CSR shows a positive impact on performance of the firms but the effect is not significant. The same behaviour is shown by other variables such as working capital and leverage ratio. The implication of the result is that the expenditure on CSR of the sampled companies has not been able to impact significantly on their profit level which is used to measure their performance in the study.

However, there is enough evidence to conclude from the findings of the study that the size of the firms is an important variable that influence their performance. The results showed that bigger firms have the tendency of making more profit than smaller firms but that does not make them to be more CSR responsible than the smaller firms.

In addition, there is a difference in the relationship between CSR and performance of the firms in the two sectors used in the study that is the oil and the banking sector. There is enough evidence from the findings of the study to support the fact that the results from the banking sector is more homogenous than that of the oil sector. The implication of this

finding is that the banks used in the analysis demonstrate uniformity in terms of their relationships between CSR, other control variables and their performances. Therefore, it can be concluded from the study that banks in Nigeria appear to exhibit similar approaches in their CSR expenditure and its implications on their performances. This result further underscores the importance of a unique code of conduct which guides the operation in the banking sector. However, a good number of the firms used under the oil sector are outliers under the cross-sectional effect analysis. This speaks volume of the heterogeneity existing in the oil sector in Nigeria especially in their approach to CSR and the implications for their performances. Consequently, it can be concluded that most of the oil firms in Nigeria use different approaches to execute CSR and hence the effects on their performances are also different.

General implication from the findings revealed that firms in Nigeria are yet to significantly use CSR to promote their performances like what is done by firms in developed economies. Therefore, as part of the recommendation from this study, Nigerian firms are advised to pay more attention to being CSR responsible and find ways by which this can translate to improved profit and enhancement of their overall performances. Again, relevant authorities in Nigeria saddled with the responsibilities of enforcement of CSR compliance by firms should focus more on the oil sector where there are diversities in approaches to CSR.

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