International Journal of Accounting Research (IJAR)
Vol. 2, No. 10, 2016
***Publisher**: ZARSMI, UAE, and Regent Business School, South Africa*

www.arabianjbmr.com

CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE FINANCIAL PERFORMANCE: THE NIGERIAN EXPERIENCE

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Abstract

Strategic managers are consistently faced with the decision of how to allocate scarce corporate resources in an environment where they are pressured. This paper attempts to demonstrate empirically the impact of corporate social responsibility on firms financial performance. The paper adopted a pooled panel survey research design method. Annual reports of twenty nine (29) sample firms from 2005 to 2010 formed the source of data collection where CSR (donations), earnings per share (EPS), size, tang, and leverage for 174 observations were used for the computational experiment. The data collected for this study were analyzed using the panel data regression analysis. The result indicated that corporate social responsibility (CSR) has little impact on the sample firms' EPS. The study concluded that the performance of EPS is higher than the independent variables (CSR, Lev, size, and tang) from the analysis result because lower coefficient of variation infers higher performance, consistency and efficiency of result. The paper recommends amongst others that corporate organizations should be involved in SR by spending reasonable amount of their revenues on social responsibility as this will in turn lead to increase in earnings as defined by the triple-bottom-line reporting.

Keywords: Social responsibilities, earnings per share, financial performance, NSE.

1. Introduction

The relationship between a firm's social responsibility (SR) or more recently its corporate social responsiveness and its financial performance has been the subject of a lively debate since the 1960s. The prior conception of SR can be found in Friedman's (1970) famous article titled "The social responsibility of business is to increase its profit's. Corporate social responsibility has nowadays a much wider scope than it used to be, it adds environmental and social concerns to economic imperatives. It is difficult to believe however, that firms have only minor financial interests to invest in such proxies (McWilliams, Siegel & Wright, 2006). On a wide range of issues, corporations are encouraged to behave socially responsible since strategic managers are consistently faced with the decision of how to allocate scarce corporate resources in an environment that is placing more and more pressures on them. These pressures are not coming directly from traditional concerns of strategic management but from

concerns about social issues in management. The allocation of scare resources by corporate nations like Nigeria has been in place as far back as the 1950s. In the Nigerian context the main influencing factors during the CSR agenda in Nigeria have been foreign multinational companies (MNCs) operating in the country in line with foreign governments. The triple bottom line is proposing that companies do not have only one objective of profitability, but that they also have objectives of adding environmental and social values to society.

In the light of the above problems there is a need to evaluate the effect of SR on the financial performance of listed companies in Nigeria.

The reminder of the paper is organized as follows: section 2 discusses the theoretical and conceptual frameworks together with the review of related literature. Section 3 reviews the methodology used while section 4 is on the report of the results and discussion, section 5 provides the conclusion and recommendations.

2. Theoretical Framework and Review of Related Literature

2.1 Theoretical Framework

Emerging alongside CSR and triple-bottom-line theory, stakeholder theory stands in contrast to the neo-classical conception of managerial obligation where the social responsibility of the business is to maximize business profit. A fundamental feature of stakeholder theory is therefore to attempt to identify individuals and groups that organizations and companies are accountable to and that has also been part of the theory's challenge (Anderson & Bieniaszewska, 2003 as cited in Bolanle, Olanrewaju & Muyideen,(2012). The interaction between the corporation and its stakeholders is the essence of stakeholder theory and in effect terms like "participation", "inclusion", "voice", "involvement" and "partnership" are common in stakeholder literature. The term stakeholder helps to describe the involvement of stakeholders in decision making processes that concern both social and environment issues (Rahbek & Pedersen, 2006 as cited in Bolanle, Olanrewaju & Muyideen, 2012).

The main objective of stakeholder theory is that it adds a framework for business ethics because it acknowledges a plurality of values and moral agency at different levels and gives a better understanding of a company's complex moral responsibility than other economic theories do.

Freeman (1984) posits that a manager bears a fiduciary relationship to stakeholders whom he defines as groups or individuals who can affect or are affected by the achievements of the organization's objectives such as stakeholders, suppliers, employees, customers and host community. The instrumental stakeholder perspective shows the firm as pursing its interest by managing its relationships with other stakeholder groups. The normative perspective addresses the stakeholder. The central argument of this approach to stakeholders' theory is that stakeholder interests should not only be recognized for instrumental or strategic purposes but also out of moral obligation.

The viewpoint of agency theory states that an opportunistic and self-serving manager may use CSR to increase his or her personal social status, yet the related costs of executing the CSR are borne by the stakeholders (Friedman 1970). Furthermore, these managers do not always possess the professional ability to solve social problems effectively, which is why investments in CSR are an unfair treatment for stockholders. Stakeholder theory emphasizes that effective management of stakeholder relationships, the fundamental blocks of CSR, may also result in better financial performance.

2.2 Conceptual Framework and Review of Related Literature

2.2.1 Conceptual Framework

CSR as a concept means that: Management should have consideration of the social as well as economic effects of its decisions. It applies to all businesses regardless of size, location or industry (Appelbaum, Beckman, Boone & Kwtz, 1984). May be defined as the duty of care which corporation exhibits not only with respect to their business operations such as profits, return on investment,

dividends payment and so on, but also with respect to social, environmental, health, education and other consequences.

The concept of CSR requires that companies should map out and give effect to specific programmes in accordance with a well defined social policy. Business social responsibility exists and can be felt in many facets in the companies' corporate relationship with stakeholders such as suppliers, customers, employees, host community, owners of businesses, creditors, management, government and the society. This concept may relate to the tackling of pollution problems, poverty and ethnic discrimination and parochial interests, product safety, misleading advertising, consumer complaints and smuggling.

The definition of CSR is not abstruse. According to Business for Social Responsibility (BSR), corporate social responsibility is defined as achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment. McWilliams and Siegel (2000) describe CSR as actions that appear to further some social good, beyond the interests of the firm and that which is required by law. A point worth noting is that CSR is more than just following the law. Friedman (1970) views CSR as an action by a firm, which the firm chooses to take, that substantially affects identifiable social stakeholder welfare. A socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribution to the welfare of its key stakeholders.

2.2.2 Review of Related Literature

With respect to CSR and firm's financial performance, the literature consists of three principal stands. The empirical studies reveal that:

- The existence of a positive correlation between CSR and financial results;
- The lack of correlation between CSR and financial results; and
- The existence of a negative correlation between CSR and financial results.

From the viewpoint of studies on positive correlation between CSR and financial results, there is suggestion that a firm's explicit costs are opposite of the hidden costs of stakeholders and their satisfaction (Cornell & Shapiro, 1987). In addition, this theory further infers that commitment to CSR would result in increased costs to competitiveness and decrease in the hidden cost of stakeholders. Griffin and Mahon (1997) find that investments in CSR have a big return in terms of image and overall financial results, the related benefits in fact are bigger than the related costs.

Bolanle et al (2012) conclude that there is positive correlation between CSR expenditure and banks profitability thus suggesting causal relationship between CSR and profitability of banks. This was easily inferred due to the fact that cost on the CSR will further reduce tax paid by the banks. Waddock & Graves (1997) find significant positive relationships between an index of CSR and performance measures such as ROA in the following year. Gochram & Wood (1984) locate a positive correlation between social responsibility and accounting performance after controlling for the age of asset. Waddock & Graves (1977) used an improved measure, and found that CSR does depend on financial performance and that the sign of the relationship is positive, that is, in support of the slack resources theory, firms with slack resources potentially available from strong financial performance may have greater freedom to invest in positive CSR.

Other arguments propose that financial performance also depends on goods or socially responsible performance. According to Waddock & Graves, meeting stakeholder expectations before they become problematic indicates a proactive attention to issues that otherwise might cause problems of litigation in the future.

Furthermore, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners. Ioannou and Serafeim (2010) finds that firms with higher visibility receive more

favourable recommendations for the CSR strategies and that analysts with more experience, broader CSR awareness or those with more resources at their disposal, are more likely to perceive the value of CSR strategies more favourably. Scholars have argued that enhanced social performance may lead to obtaining better resources, higher quality employees, better marketing of products and services and it may even lead to the creation of unforeseen opportunities (Fombrum, Gandberg & Bernetlt, 2000; Moskowitz 1972; Waddock & Graves, 1997). According to Konar & Cohen (2001), positive social performance could reduce the level of waste within productive processes. Porter (1980) posits that CSR initiatives can lead to reputation advantage as improvement in invested trust, new market opportunities and positive reactions of capital market would enhance organization's financial performance.

From the viewpoint of neutral association, that there is simply no relationship, positive or negative, between social responsibility and financial performance (Aupperle, 1985; Ulimam 1985; Waddock & Graves 1997; McWilliams & Siegel, 2000). Ulimam (1985) argues that there are so many intervening variables between social responsibility and financial performance that there is no reason to expect a relationship to exist, except, possibly by chance. Waddock & Graves (1997) explain that a neutral relation due to many variables that take place between social responsibility and financial performance make the connection coincidental. Aupperle, Carrol and Hatfield (1985) detect no significant relationship between CSP and a firm's adjusted return on assets.

The third stand is the negative association. Those arguing for a negative relationship between social responsibility and financial performance believe that firms that perform social responsibility incur a competitive disadvantage and focus on contribution that is referred to as managerial opportunities hypothesis. Preston and Obamon (1997) posit that managers can reduce investments in CSR in order to increase short term profitability (and in this way, their personal compensation).

Studies using measures of return based on the stock market also indicate diverse results. Vance (1975) refutes previous research by Moskowitz by extending the time period of analysis from 6 months to 3 years, thereby producing results which contradict Moskowitz and which indicate a negative CSR and corporate financial performance (CFP) relationship.

According to Friedman (1970) and other neoclassical economists' arguments there are few readily measureable economic benefits of socially responsible behaviour while there are numerous costs. The costs, by this argument, fall directly to the bottom line, reducing profits and thus shareholder wealth. These theorists expect the relationship between CSR and financial performance to be negative. When carrying out CSR activities, increased costs will result in little gain if measured in economic terms. When neglecting some stakeholders such as employees or the environment, result in a lower CSR for the enterprise, the CFP may be improved. Hence, Waddock and Graves indicates that this theory was based on the assumption of negative correlation between CSR and CFP.

3. Research Methods and Materials

The research population is the listed firms on the Nigerian Stock Exchange from 2005 to 2010. Because to time and cost constraints a sample size of 29 firms was chosen using the purposive sampling technique thus giving 174 observations. The researchers adopted a pooled panel analysis. Data were collected from the twenty nine sampled firms, which include corporate social responsibility (donations), size, lev, tang and earnings per share (EPS) for the six years. Data relating to donations and earnings per shares were used to construct pooled model of regression.

The study adopts model in the relationship between CSR and firm financial performance (FFP). This study employs regression analysis as the statistical model for analyzing data collected. Where EPS is the independent variable and CSR, lev, size and tang are the dependent variables, as shown below:

The model is given as

$Y = x_0 + x_1CSR + x_2lev + x_3 size + x_4 tang + e,$

Where:

Y = EPS

X_1 = CSR

X_2 = lev

X_3 = size

X_4 = tang

Table 1: Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EPS	174	2795.552	18056.12	-573	2E+05
CSR	174	47400.97	124625.3	0	1E+06
lev	174	0.6199446	0.2819385	0.2082033	2.991
Size	174	7.13111	0.7901838	5.290057	8.531
Tang	174	0.4230673	0.2351739	0.0129522	0.967

Source: Field work

Table 2: Correlation Analysis

Pwcorr	EPS CSR	lev size	tang, sig star (5)		
		EPS	CSR lev	size	tang
	EPS	1			
	CSR	0. 0758	1		
		0. 32			
	l ev	0.0897	0.1415 1		
		0.2392	0.0625		
	size	0.1801*	0.3216* 0.3243*	1	
		0.0174	0.0000 0.0000		
	Tang	0.0012	-0. 2687* - 0.2957*	-0. 1547*	1
		0.9873	0.0003 0.0001	0.0415	

Source: Field work

Pooled Regression Results

reg EPS CSR lev size tang

Table 3

Source	SS	df	MS	Number of obs	174
				(F 4, 169)	1. 57
Model	2. 0219e+09	4	505470184	Prob > F	0.1843
Residual	5.4380e+10	169	321776085	R–squared	0.0358
				Adj R-squared	0.013
Total	5. 6402e+10	173	326023347	Root MSE	17938

EPS	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
CSP	.0043187	.0118898	0.36	0.717	-0. 0191531	0.0277904
lev	3008. 792	5300. 94	0.57	0.571	-7455. 796	13473. 38
size	3719. 208	1909. 148	1.95	0.053	-49. 6412	7488. 058
tang	3707. 787	6253. 308	0.59	0.554	-8636. 871	16052. 44
cons	-27365. 17	13414. 18	-2.04	0.043	-53846. 1	-884. 2308

Source: Field work

Table 4
Fixed Effect Regression Analysis

xtreg EPS CSR lev size tang, fe

Fixed–effects (within) regression Number of obs = 174
Group variable: ci Number of groups = 29

R–sq: within = 0.0350 Obs per group: min = 6
between = 0.0002 avg = 6. 0
overall = 0.0062 max = 6

corr (u_ I, xb) -0. 2062 F (4, 141) = 1.28
Prob > F = 0. 2806

EPS	Coef.	Std. Err	t	P>t	[95% Conf.	Internal]
CSR	. 0227804	. 013055	1.74	0.083	- 0030285	.0485893
l ev	2943. 647	5290. 07	0.56	0.579	-7514. 458	13401. 75
size	262. 6636	5266. 761	0.05	0.960	-10149. 36	10674. 69
tang	17128. 88	12589. 13	1. 36	0.176	-7758. 962	42016. 72
_cons	-9228. 911	37111. 04	-0. 25	0. 804	-82594. 89	64137. 07

s I gma_ u 13765. 717
s I gma_ e 13466. 955
rho .5109694 (fraction of variance due to u_ i)

F test that all u_ i=0: F (28, 141) = 5. 67 Prob > F = 0. 0000

Source: Field work

Table 5
Random Effect Regression Analysis

```
 Xtreg       EPS  CSR   lev  size  tang,  re

Random-effects  GLS  regression                    Number of obs    =          174
Group variable:     ci                            Number of groups =           29

R–sq:       within =  0. 0316                      Obs  per  group: min =        6
    between       =  0. 0284                                        avg =     6. 0
    overall       =  0. 0278                                        max =        0

Random  effects  u_ I ~ Gaussian                   wald  chi2 (4)   =        5. 13
corr (u_ I,   X)        = 0 (assumed)              Prob > chi2      =     0. 2747

------------------------------------------------------------------------------
      EPS |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
----------+-------------------------------------------------------------------
      CSR |  . 0172321   .01864     1. 45   0. 146    -. 0060208   . 0404851
      lev |  3028. 524   4942. 776  0. 61   0. 540    -6659. 138   12716. 19
     size |  2803. 013   2914.221   0. 96   0. 336    -2908. 756   8514.782
     tang |  9491. 565   8702.745   1. 09   0. 275    -7565. 501   26548. 63
     _cons | -23902. 95   21061.47  -1. 13  0. 256    -65182. 67   17376. 77
----------+-------------------------------------------------------------------
  sigma_u |  12793.65
  sigma_u |  13466. 955
      rho |  .4743775  (fraction of variance due to u_ i)
------------------------------------------------------------------------------
```

Source: Field work

Table 6
Hausman fixed Test

Note: the rank of the differenced variance matrix (3) does not equal the number of coefficients being tested (4); be sure this is what you expect, or there may be problems computing the test. Examine the output of your estimators for anything unexpected and possibly consider scaling your variables so that the coefficients are on a similar scale.

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt (diag(V_b-V_B))
	fixed	.	Difference	S.E.
CSR	.0227804	.0172321	.0055483	.005448
lev	2943.647	3028.524	084.87718	1885.153
size	262.6636	2803.013	-2540.35	4387.036
tang	17128.88	9491.565	7637.312	9096.61

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi^2 (3) = (b-B) '[(V_b-V_B)^(-1)] (b-B)
= 0.83
Prob>chi^2 = 0.8422

5. **Discussion of Findings**

Pooled Regression Interpretation

Apriori expectation $x_1 > 0$, that the partial change in the independent variables have positive effect on the EPS.

Interpretation

The model estimated is given as

EPS = -27365.17 + 0.0043187 + 3008.792 lev + 3719.208 size + 3707.787 tang (13414.18) (0.0118898) (5300.94) (1909.148) (6253.308) of the OLS agrees with apriori expectation. The t-statistic estimate for independent variables (CSR, lev, size and tang) is positive which shows that there is a significant relationship between the independent variables and the dependent variable.

The correlation (r) which is the square root value of r^2 is 0.1892 while the coefficient of determination (r^2) shows that the independent variables (CSR, lev, size, and tang) are capable of explaining about (0.4%, 30.1%, 37.2% and 37.1%) variation of EPS while the remaining (99.6%, 69.9%, 62.8% and 62.9% are unexplained by the exogenous variables: CSR, lev, size and tang). This means that the relationship between ESP and CSR, lev, size and tang in the firms are very low.

In view of empirical interpretation of the results, the table shows that there is no significant overall relationship between the variables as p-value of f-stat (1.57) is 0.1843 which is greater than the critical values of 1%, 5% and 10%.

Testing for the independent variable's (CSR) relationship with the ESP, the results of the prob. associated with CSR t-statistic revealed that the p-value (0.717) is greater than the critical value at 5% level, thus CSR is not significantly related to ESP.

Testing for the independent variable's (lev) relationship with ESP, the results of the prob. associated with the lev t-statistic revealed that the p-value (0.571) is greater than the critical value at 5% level, thus lev is not significantly related to ESP.

Testing for the independent variable's (size) relationship to EPS, the result of the prob. associated with the size, t-statistic revealed that the p-value (0.053) is greater than the critical value at 5% level, size is not significantly related to ESP.

Testing for the independent variable's (tang) relationship with EPS, the results of the prob. associated with the tang t-statistic revealed that the p-value (0.554) is greater than the critical value at 5% level, thus tang is not significantly related to ESP.

Descriptive Statistics Interpretation

On the average CSR has the highest mean of 47400.97 while EPS has 2795.552, lev has 0.619, size has 7.13 and tang has 0.423 hence there is low EPS, since, high mean implies higher performance based on the independent variables.

The minimum and maximum range of mean of the dependent variable and independent variables are between -573 and 2E+05 respectively. To investigate the degree of spread between the dependent variable and independent variables, the variable values show that the independent variables have lower variance of 0.2819, 0.7901 and 0.2351 except CSR with high variance of 124625.3. Therefore, we conclude that they (lev, size and tang) have higher degree of spread or distribution as they possess lower variance measures except CSR.

Fixed effect Regression Analysis

Interpretation

The model estimated is given as

EPS = -9228.911 + 0.02278 CSR + 2943.647 lev + 262.6636 size + 17128.88 tang of the OLS agrees with apriori expectation.

The t-statistic estimated for the independent variables (CSR, lev, size and tang) are positive which shows that there is a significant relationship between the independent variables and dependent variable.

The correlation (r) which is the square root value of r^2 is 0.1870 while the coefficient of determination (r^2) shows that the independent variable (CSR, lev, size and tang) are capable of explaining 2%, 29%, 26% and 17% variations of EPS while the remaining 98%, 71%, 74% and 83% is unexplained by the exogenous independent variables. This infers that the relationship between the dependent variable (ESP) and the independent variables (CSR, lev, size and tang) is very low.

In view of the empirical interpretation of the results, the table shows that there is no significant overall relationship between the variables as p-value of f-stat (1.28) is 0.2806 which is greater than the critical values of 1%, 5% and 10%.

Testing for independent variable's (CSR) relationship with EPS, the results of the prob. associated with the CSR t-statistic revealed that the p-value (0.083) is greater than the critical value at 5% level, thus CSR is not significantly related to EPS.

Testing for independent variable's (lev) relationship with EPS, the results of the prob. associated with lev t-statistic revealed that the p-value (0.579) is greater than the critical value at 5% level, thus lev is not significantly related to EPS.

Testing for independent variable's (size) relationship with EPS, the results of the prob. associated with size t-statistic revealed that the p-value (0.960) is greater than the critical value at 5% level, thus size is not significantly related to EPS.

Testing for the independent variable's (tang) relationship with EPS, the results of the prob. associated with tang t-statistic revealed that the p-value (0.176) is greater than the critical value at 5% level, thus tang is not significantly related to EPS.

Random Effect Regression Interpretation

The model estimated is given as

EPS = -23902.95 + 0.01972321 csr + 3028.524 lev + 2803.013 size + 9491.565 tang of the OLS agrees with appriori expectation.

The t-statistic estimated for the independent variables (CSR, lev, size, and tang) are positive which show that there is a significant relationship between the dependent variable (EPS) and the independent variables (CSR, lev, size and tang). The correlation (r) which is the square root value of r^2 is 0.1777, while the coefficient of determination (r^2) shows that the independent variables (CSR, lev, size and tang) are capable of explaining 1%, 30%, 28% and 94% variation of EPS while the remaining 99%, 70, 72% and 6% are unexplained by the exogenous variables "CSR, lev, size and tang". This infers that the relationship between the dependent variable and independent variables is very low except that of tang.

Testing for the independent variable's (CSR) relationship with EPS, the results of the prob. associated with the CSR t-statistic revealed that the p-value (0.146) is greater than the critical value at 5% level, thus CSR is not significantly related to EPS.

Testing for the independent variable's (lev) relationship with EPS, the results of the prob. associated with the lev t-statistic revealed that the p-value (0.540) is greater than the critical value at 5% level, thus lev is not significantly related to EPS.

Testing for the independent variable's (size) relationship with EPS, the results of the prob. associated with the size t-statistic revealed that the p-value (0.336) is greater than the critical value at 5% level, thus size is not significantly related to EPS.

Testing for the independent variable's (tang) relationship with EPS, the results of the prob. associated with the tang t-statistic revealed that p-value (0.275) is greater than the critical value at 5% level, thus tang is not significantly related to EPS.

We conclude that the performance of EPS is higher than the independent variables (CSR, lev, size and tang) from the analysis results because lower coefficient of variation infers higher performance, consistency and efficiency of results.

6. **Conclusion**

The research concludes that CSR spending in the short-run provides no significant impact on the EPS of firms in Nigeria. However, in the long run this may provide better returns of the profitability of firms.

The study also concludes that the stated hypothesis was not supported since there is a positive relationship between CSR (donations) and firms EPS at 8% but not significant at 5%. Thus, suggesting no causal relationship between CSR and profitability of firms on the NSE. The lack of support can be inferred to be due to the small amount of money spent on CSR by firms which in turn had little or no effect on the tax liability of the firms.

7. **Recommendations**

The paper therefore, recommends that corporate firms should spend reasonable amounts of their income on donation (CSR) as this will in turn lead to increase in their earnings as proposed by triple-bottom-line accounting. Government needs to adopt a measure that monitors corporate organizations fair investment in social responsibility so as to discourage some management who records high costs on their financial report for CSR to evade tax and without giving anything back to the society. Various industrial sectors should set standards as industrial average amounts that corporate organizations within such industrial sector must spend on CSR in each financial year of operation. This will go a long way to boast the idea behind triple-bottom-line reporting where people, planet and profit are the three (3) focal points.

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