CORPORATE SOCIAL RESPONSIBILITY (CSR) AND PROFITABILITY OF SELECTED DEPOSIT MONEY BANKS IN NIGERIA: A PANEL ANALYSIS

*SANNI, Mubaraq (Phd, ACA)
dr.smubaraq@gmail.com, 0803-0817-20
**OLAYIWOLA, Kadir (ACA)
Laikadry2010@yahoo.com
***ABDUL-BAKI, Zayyad (ACA)
abuzaytun2010@yahoo.com

Abstract

Spending without knowing the future returns generated for an organization could cumulatively put an organization into financial problems in the future. To this end, Corporate Social Responsibility (CSR) expenditure should rather improve the profitability position of an organization and not otherwise. This study examines the impact of corporate social responsibility expenditure on the profitability of Nigerian Deposit Money banks. Secondary data sourced from the banks' financial statements between 2007 and 2011 were employed in the analysis. Purposive sampling technique was adopted to select ten out of the existing twenty one Deposit Money Banks currently operating in Nigeria. Correlation and Panel data regression model was adopted to provide answer to the research questions raised. The results show that expenditure on CSR has no significant impact on banks' profitability, implying that care should be exercised by Nigerian banks on the amount committed to CSR so as not to jeopardize their profits and wealth maximization objectives.

Key words: Corporate Social Responsibility, Profitability and Nigerian banks

1. INTRODUCTION

In recent years, businesses have become more aggressive about advancing and promoting efforts to achieve more socially responsible decision-making, commonly known as Corporate Social Responsibility (CSR). Firms are now integrating social, environmental and governance objectives into their business models by making tangible changes in virtually all aspects of their operations, such as research and development, production plans, and accounting practices. Recognizing the potential benefits of improved public relations, many firms publicize their dedication to CSR, and some even provide stockholders with a formal report of their CSR accomplishments.

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Financial markets currently develop sustainability indexes, banks elaborate and publish social and environmental reports, and managers acknowledge the benefits of adopting a triple bottom line approach (people, planet, and profits) to manage firms' accounting (Hossain and Reaz, 2007; Ziek, 2009; Lee, 2010). Indeed, companies are not only trying to be more responsible, but are also granting more visibility to their social activities with increasing media coverage for CSR practices (Luo and Bhattacharya, 2006). Besides, new successful formulas of commercial banking have arisen as a result of banks' support for investments in social and environmental sustainability using stakeholder management approaches (Weber, 2005; Stubbs and Cocklin, 2007). It has also become a normal practice for banks to disclose on the face of financial statements how much they have spent on CSR under the heading donations and charitable gifts. As these trends emerged, there has been a resurgence of scholarly interest in the motivations behind CSR and the implications for the firm's profitability and market capitalization – an effort that began in earnest in the 1970s (Bragdon and Marlin, 1972).

Consequently, corporate firms do engage in "profit-maximizing" CSR in anticipation of a benefit from these actions (Baron, 2001; McWilliams and Siegel, 2001; Bagnoli and Watts, 2003). Examples of such benefits might include reputation enhancement, the ability to charge a premium price for its output, or the use of CSR to recruit and retain high quality workers. These benefits are presumed to offset the higher costs associated with CSR, since resources must be allocated to allow the firm to achieve CSR status. In the light of the foregoing, organizations aim at maximizing its profit through expenditures on CSR.

This study is situated within the confines of the banking industry as most CSR have been in the real sectors in Nigeria (for example Ite, 2004; Idemudia and Ite, 2006 and Edoho, 2008). The effect of a downturn in the financial sector of Nigeria has been uncovered due to the recent financial meltdown that occurred in 2007 which has led to the takeover of some banks in Nigeria such as Oceanic Bank Nigeria Plc., Intercontinental Bank Nigeria Plc. to mention just a few. Thus the need to invest in corporate social responsibility endeavours has become prominent in the financial sector across the world. "The erosion of the financial sector's image has prompted a feeling of fear among customers about the security of their savings, which in turn has favoured the adoption of switching behaviours (Simon, 2009 cited in Matute-Vallejo, Bravo and Pina, 2011, p. 1). "In a world where consumer confidence in the banking industry has been bruised over the last few years, searching for solutions to rebuild trust and maintain clients' loyalty is a critical task not only for bank managers but also for strategic management and marketing research" (Matute-Vallejo, Bravo and Pina, 2011, p. 1). The positions of Simon (2009) and Matute-Vallejo *et al.* (2011) has been supported by Osuji (2009) in strengthening the fact that banks now need to address issues of corporate social responsibility activities to sustain their growth and profitable survival. According to Osuji (2009):

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> *For Nigerian financial institutions, awareness and proper management of non-financial issues and reputation is of increasing importance. Negative non-financial reputation presents "real" consequences for both financial institutions and their officers. Management of such matters is critical; it is preferable to catch non-financial issues before they become headline news (p. 58).*

This paper therefore examines the impact of CSR expenditure on Deposit Money banks profitability in Nigeria The remaining part of the study is structured as follows: The next section provides the review of related literature. Section three provides the methodology of the study. Section four presents the research findings while section five provides the concluding part of the study.

2. LITERATURE REVIEW

Conceptual Issues: Corporate Social Responsibility and Stakeholders

CSR is a deliberate inclusion of public interest into corporate decision making, and the honouring of a triple bottom line which are People, Planet and Profit. (Harpreet, 2009). Corporate social responsibility is represented by the contributions undertaken by companies to society through core business activities, social investment and philantrophic programmes and engagement in public policy. (Asian-oceanic Computing Industry Organisation (ASOCIO), 2004)

> *Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders (United Nations Industrial Development Organisation, 2011).*

According to Crowder and Aras (2008) and Adeyanju (2012) an organization should fulfill its social responsibilities to the stakeholders for it to achieve its set objectives. Adeyanju (2012) categorizes these stakeholders in the banking sector to include:

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a. **Customers-** the bank ensures that: efficient services are offered to the customer; savings and withdrawals of money are less time consuming; cash withdrawal are met promptly by ensuring adequate liquidity; reasonable interest rates and commissions are charged; competitive rate of interest on saving and deposit, in line with the CBN's credit and monetary guidelines are paid; safety of deposits are maintained; conducive environment for banking activities, e.g. spacious and well ventilated banking hall, security for valuables and vehicles within the bank premises' are provided and the affairs between the bank and customers to protect the interest of the customers are made secret.

b. **Shareholders-** the bank ensures that: the capital invested in the bank are utilized to maximize profit.; good dividends, i.e. reasonable returns commensurate with the capital investment are paid; the owner's wealth are maximized by ensuring good market prices of the shares of the bank in the stock market; bonus shares are issued from time to time;.

c. **Employees-** the bank ensures that: a conducive working environment is provided; competitive salary remuneration commensurate with the level of commitment is paid; opportunities for career development, e.g. inducement for taking professional examination are offered; employees are trained and developed through continuous learning at seminars, conferences, workshop, with the view to updating their knowledge base, to meet rapid changes in the banking environment and equal opportunities among employees is maintained i.e. there should be no preferential treatment or favoritism. **Government-** the bank ensures that: credit facilities are provided to various sectors of the economy, with a view to ensuring the economic development of the country; the laws and regulations prescribed by regulatory authorities like the Central Bank of Nigeria, the Nigeria Deposit Insurance Corporate, etc are complied with; the government is assisted in funding and promoting social activities, such as sponsoring sports programmes, contributions towards combating diseases e.g. AIDS, etc.

e. **The Public-** the bank ensures that: the environment is developed through provision of basic facilities like good drinking water, donations to development associations, bringing banking services to the rural areas, indigenous lending, etc.; employment opportunities are created and maintained to qualified members of the community. This encourages loyalty, commitment and cooperation from the community; participation in community activities, such as donations to community, awarding scholarship to deserving members of the community among others.

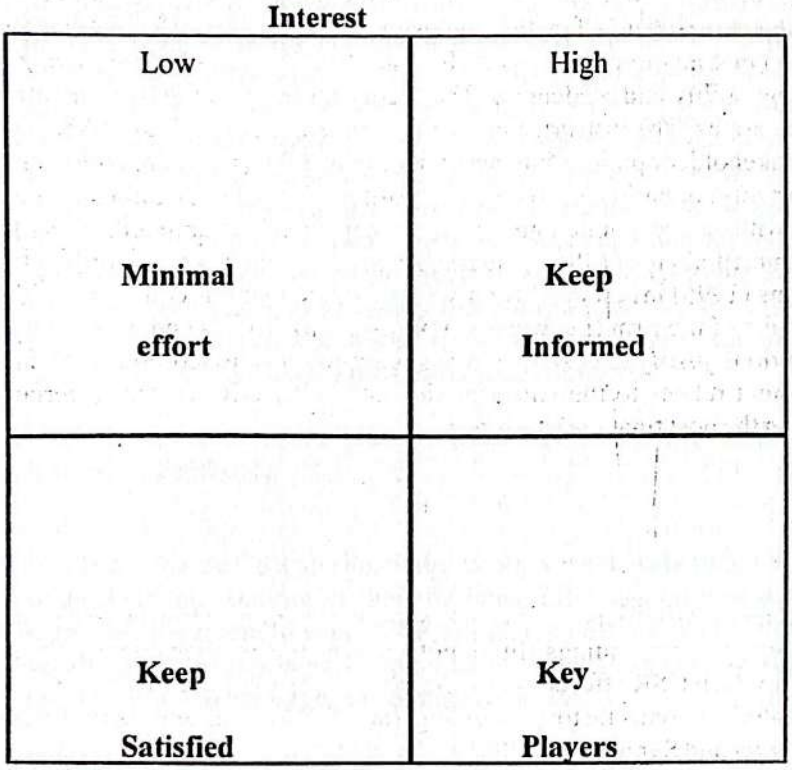
Conceptual Model and Theoretical Background

Corporate Social Responsibility is often undertaken according to the enlightened value maximization theory, and therefore instrumental to a firm's profit making outcomes (Baron, 2001). Consequently, knowing stakeholders and how to engage them in the decision making endeavours of an organization is crucial to understanding which engagement of a particular stakeholder helps the firm in maximizing value. Several authors have identified the importance of stakeholder engagement in realizing a firm's profit objective (Matute-Vallejo et al., 2011).

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Therefore, the question of which stakeholder to be engaged in a decision making process is best answered using the Mendelow framework.

Figure 1: The Mendelow Framework



Source: Campbell (2008)

Figure 1 depicts how firms strategically put individual stakeholders into their decision making process. The framework typically analyses each stakeholder's power in line with the various course of action.

According to the framework, stakeholders with neither interest nor power may be ignored, "although this does not take into account any moral or ethical considerations" (Campbell, 2008). In addition, stakeholders with high interest but low power may improve their overall influence by forming coalitions with other stakeholders in order to exert a greater influence thereby moving to the bottom right. Hence they are to be kept informed because of the possibility that they may increase their power through coalition with other stakeholders. Stakeholders in the bottom right as depicted in the framework are the high-interest and high-power stakeholders, thus they can influence a company's policies. The strategy for relating with these stakeholders is to get them involved in a company's decision making process. Lastly, stakeholders with high power but low interest should be kept satisfied because of the possibility that they could wield their power in case they feel dissatisfied.

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Consequently, this study is theoretically situated within the framework of the enlightened value maximization theory. The enlightened value maximization theory was constructed by Jensen in 2001. The theory holds that while the ultimate objective of an organization is to maximize firm's value in the long run, the needs of the stakeholders should not be undermined. The theory advocates for the inclusion of stakeholders' interests in organizational decision making process in as much as such inclusion will not jeopardize the firm's profit making ability and tendencies. The theory aligns with the instrumental view of stakeholder relations. The instrumental view of stakeholder relations holds that "organizations take stakeholder opinions into account only insofar as they are consistent with other more important economic objectives (e.g. profit maximisation, gaining market share, compliance with a corporate governance standard)" (Campbell, 2008). Furthermore, the instrumental view is the orientation of the 'expedient' who according to Gray, Owen and Adams (1996) invest in CSR only to the extent that it is consistent with the long – term objective of the firm (i.e. wealth maximisation). To this end, this theory and these two perceptions justify this study's investigation into how corporate social responsibility investment relates to the value maximization objective of the Nigerian banks especially during the post financial crisis period.

Empirical Evidence

The link between CSR and Profitability seems not to submit to a universal acceptance and understanding. Authors in their findings differ not only in the relationship but also regarding the extent to which CSR affects the profitability of firms. These differences in results have been related to some factors including sample size, cultural setting and market value (Schaltegger and Synnestvedt, 2001)

According to Konar and Cohen (2001), bad environmental performance is negatively correlated with intangible asset value of firms. Using the market value of firms from Standard and Poor (S&P 500, they conclude that legally emitted toxic chemicals have a significant effect on intangible asset value of publicly traded companies. A 10% reduction in emissions of toxic chemicals results in a 34 million increase in market value. Equally, Russo and Fouts (1997), observe that environmental performance and economic performance are positively linked. Using a sample of 243 firms over two years, they found out that profitability is linked to environmental performance and it is moderated by industry growth. In the same vein, Fisman, Heal and Nair (2006) found out that CSR is positively related to profitability especially in the consumer-oriented industries. This is in conformity with the idea of McWilliams and Siegel (2001) who assert that firms manufacturing experience goods are more likely to engage in CSR than firms producing search goods. This is premised on the fact that experience goods and services are used or consumed before their true value to the consumer can be determined. In the words of King and Lenox (2001), a relationship exists between lower pollution and financial evaluation although this is isolated as being caused by firms' fixed characteristics and strategic position.

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In line with the foregoing explanation between the relationship that exists between CSR and firm's profitability Wahba (2007) opines that "environmental responsibility exerted a positive and significant coefficient on the firm market value measured by Tobin's *q* ratio" (Wahba, 2007). Also, Callan and Thomas (2009) found a positive relationship between corporate financial performance and corporate social performance. Furthermore, Schadewitz and Niskala (2010), using a sample of Finnish listed firms discovered that social responsibility reporting according to the Global Reporting Initiative (GRI) has significant influence on firms' value. This finding is also consistent with the findings of Oeyono, Samy and Bampton (2011).

Contrary to the above assertions, Aupperle, Carroll and Hatfield (1985), Vida, Christine and Agne (2013), found out that CSR has a negative relationship with profitability. Besides, Sebastian (2013) found no significant relationship between CSR and profitability.

In Nigeria specifically, research into relationship between CSR and profitability seems under-researched. Notwithstanding the paucity of Nigerian literature on the subject matter, Babalola (2012), in a case study research of First bank of Nigeria PLC, found out that CSR impacts on the bank's profitability. Despite the limitation inherent in the study in terms of generazability, the study provides a theoretical basis for the study. This paper however, aims at extending the frontier of knowledge using 21 Deposit Money banks in Nigeria, and basing the study on five year period of between 2007-2011.

3. RESEARCH METHOD

This study seeks to determine the extent to which banks' profitability is predicted by CSR investment. Thus, necessitating the adoption of multiple regression analysis and pearson product moment correlation coefficient.

Data Source

Secondary data sourced from the banks' financial statements were employed in this analysis. Profit after tax was adopted as a proxy for profitability and the total amount spent on donations and charitable gifts as proxy for CSR investment. In addition, banks' CSR investment was used as independent variable, while the GDP was adopted as a control variable in the multiple regression analysis. Consistent with Sufian (2010), the inclusion of GDP as a control variable is justified by the fact that firms profitability is usually affected by macroeconomic variables. Consequently, the study uses GDP growth as a control for cyclical output effects, which we expect to have a positive influence on banks profitability. The study was based on five year period of between 2007-2011.

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Year 2007 was used as the base year as it was the year immediately after the restructuring exercise in the Nigerian banking sector, while year 2011 was adopted as it was the penultimate year for the adoption of International Financial Reporting Standards (IFRS) among Nigerian public listed companies (banking sector inclusive). This period therefore constitutes a reasonable period for profitability consistency.

Population and Sampling Techniques

The population of study is the twenty one Nigerian Deposit Money banks currently in operation as at 31st December, 2013. Out of these twenty one banks, purposive sampling method was used to select the sample of ten banks. These banks were purposively selected because they readily disclosed the total amount spent on donations and charitable gifts used as proxy for CSR investment.

Model specification

The variables adopted for this study are Profit After Tax (PAT), expenditure on CSR (CSR). Nigerian Gross Domestic Product (GDP) was used as control variable. These variables have been selected on the basis of their potential relevancy to the study model and because of their importance in this study. These variables have also been used by previous studies such as Vida *et al.*, 2013; Sebastian, 2013; Babalola, 2012; Sufian, 2010.

The multiple regression model used is defined as follows:

$PAT = f(CSR, GDP)$ ----------(i)

$PAT_t = \beta_0 + \beta_1 CSR_{it} + \beta_2 GDP_{it} + e$ ----------(ii)

Where:

β_0: The intercept of the equation.

B_1 and β_2 : Coefficients for independent variables.

PAT: Profit after tax

CSR : Expenditure on Corporate Social Responsibilty

GDP: Nigerian Gross Domestic Product

t: time = 1, 2,.....5 years.

e = Error term.

Based on the above model a-priori expectation or the expected behaviour of the independent variables (The CSR and the GDP) on the dependent variable (PAT) in the model is that $\beta_1, \beta_2 > 0$. This implies that a positive relationship is expected between the dependent variable and the independent variables.

4. PRESENTATION OF RESULTS AND DISCUSSION OF FINDINGS

This section presents the descriptive results, discusses the result of the correlation coefficient among the independent and control variables, analyze the empirical results based on the panel data regression model estimates and discuss the findings.

Descriptive statistics result

Table 4.1 presents the summary of the descriptive statistics of the dependent, independent and the control variables. The mean, minimum, maximum and standard deviations are presented in order to provide an insight into the distribution of the underlying variables.

Table 4.1 Descriptive statistics summary

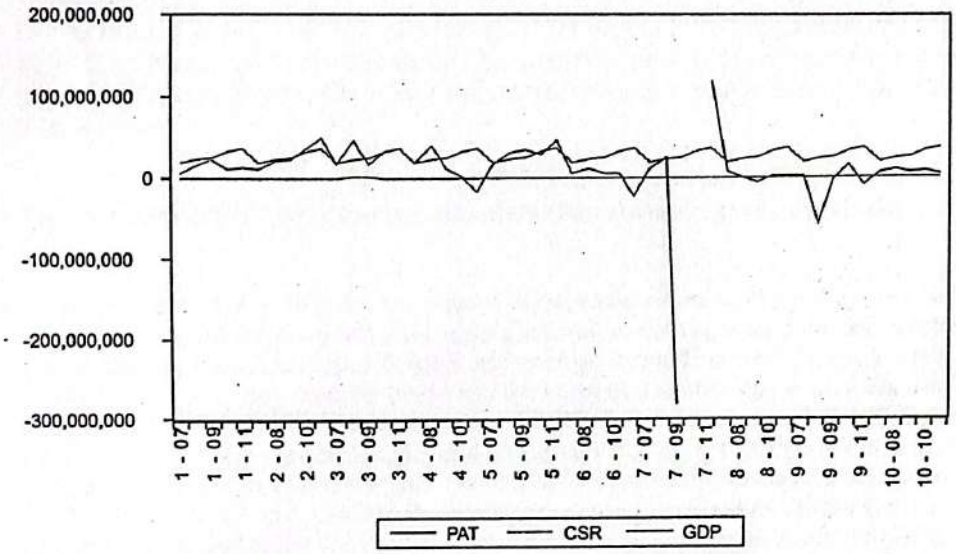
Variables	Mean (N'000)	Minimum (N'000)	Maximum (N'000)	Std. Dev (N'000)	Skewness	Kurtosis
PAT	9526302	(22,187.848.00)	50,981,230.00	48,756,356	11.00865	3.432417
CSR	299405.2	744	1,960,000	414,728.9	4.665432	8.334524
GDP	28111025	20657317.67	37,409,860.6	6,432,821	5.223146	21.556473

Source: Authors' computation 2013

The mean value for PAT is 9526302 while CSR and GDP have mean values of 299,405.2 and 28,111,025 respectively. The banks were therefore on average profitable during the 2007-2011 notwithstanding the fact that a minimum loss of N22, 187,848.00 was reported during the period. The Average CSR over the period under consideration amounted to 299,405.2. Also, the degree of variability of the variables as measured by standard deviation is relatively high affirming the fact that the variables are relatively unstable during the period. This result is also in line with the graphical display of these distributions as shown in Figure 2 below. From figure 2, the CSR seems relatively constant throughout the period despite the fluctuations in the profit reported.

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Figure 2: Graphical representation of the relationship between PAT, CSR and GDP



Source: Authors' Computation, 2013

Correlation Matrix among the Independent and control variables

Table 4.2 provides information on the degree of correlation between the explanatory variables used in the regression model.

Table 4.2: Correlation Matrix

Variables	PAT	CSR	GDP
PAT	1		
CSR	0.227322	1	
GDP	0.142928	0.044621	1

Source: Author's Computation 2013

The matrix as shown in Table 4.2 shows that in general the correlation between the banks expenditure on CSR and GDP is very weak (0.044621), thus suggesting that multicollinearity problem is not severe or non-existent. Kennedy (2008) points out that multicollinearity are a problem when the correlation is above 0.70 which is not the case here as none of the correlation coefficient is above 0.5. In an attempt to provide answer to the first research question, the correlation matrix also shows that the relationship between banks expenditure on CSR and profitability is weak (0.227332) suggesting that there is no serious relationship between these two variables.

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The implication of this is that expenditure on CSR does not constitute value maximizing activity of the banks. However, in-line with Mendelow's framework, expenditure on CSR falls in the low interest and low power matrix (see Figure 1) and as such minimal effort should be placed on it. Notwithstanding this assertion, priority attention still needs to be given to CSR expenditure (Donations and charitable gifts) but not at the expense of profit maximization.

Presentation and Analysis of Results of the Panel data regression Model.

In order to accurately estimate the impact of expenditure on CSR on Nigerian banks' profitability, some econometric issues specific to panel-data such as skewness, kurtosis, Jarque-Bera and Hausman specification test were performed before the panel regression models were computed. The skewness and the kurtosis distribution are above the cutoff point of -3 and 3 (see Table 4.1), implying that the data was not normally distributed (Peck. Olsen and Devore, 2008). Given that the variables of the study are not normally distributed; the ordinary least square method of panel data regression model cannot be used (Gujarati and Porter, 2009). One best alternative approach is to use the generalized least square method as it will overcome these problems (Gujarati and Porter 2009). In that instance, either the random or fixed-effects model should be adopted. Hence, the Hausman specification test was used to identify the most suitable model between the two.

The test was used to identify whether there is a significant correlation between the individual effects and the regressors. If there is no such correlation, then the random effects model is favoured, but if there is such a correlation, the random effects model produces a biased estimators and the fixed effects model is preferred (Gujarati and Porter, 2009). The Hausman specification test results as shown inTable 4.3 revealed the probability (p-value) greater than 0.05 for the model. Therefore, this study deems it appropriate to use the random effect models approach instead of fixed effect models.

Table 4.3 Hausman Specfication Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-sect random	2.226145	2	0.3285

Source: Authors's Computation , 2013

In order to empirically test the hypotheses regarding the impact of expenditure on CSR on banks' profitability, panel data regression model was used. As presented in table 4.4, the R^2 and the adjusted R^2 showed values of 71.9% and 63.6% respectively. The adjusted R^2 of 63.6% implies that 63.6 percent of variation in the dependent variable can be explained by the independent variables while 36.4 percent are taken of by the error term. As shown in Table 4.3, the F-Statistics of 0.000 is equally significant at 1% which implies that the overall regression model is fit The analysis also shows a Durbin Watson statistics of 1.91 which seems closer to the average benchmark of 2 (Field, 2005). Consequently, the model is devoid of autocorrelation concern. Overall, the model possesses an averagely higher predictive power.

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However the regression result shows that there is no significant impact of expenditure on CSR on Nigerian banks' profitability even at 10%. Although this result contradicts the a-priori expectation, it consequently does not reject the null hypothesis. The implication of this is that CSR does not impact on the profitability of sampled banks and as such carefulness should be exercised when investing in CSR. Consistent with the enlightened value maximization theory, the public constitute a stakeholder for bank. Consequently, expenditure on CSR should not be forgone for the fact that it does not impact on profit but should rather be given moderate attention. This result is consistent with the enlightened value maximization theory in that although expenditure on CSR does not impact on profitability, the needs of the public should not be undermined. Practically, this result is not surprising as some organizations perhaps do not have profit motive when they invest in CSR.

As for the control variable, the GDP, the result shows that there is significant relationship between GDP and Nigerian banks' profitability even at 1% level of significance. The relationship between GDP and PAT is positive which is in line with a-priory expectation. It is practically expected that GDP should positively impact on profitability. The result suggests that every N1 increase in GDP is associated with N0.56 increase in the PAT.

Table 4.4 Regression Result with PAT as the Dependent Variable

Variables/Constant	Coefficient	Std. Error	t-Statistic	Prob.
Constant	-8961394	3709560	-2.41576	0.0208
Independent Variable				
CSR	8.963441	6.265578	1.430585	0.1609
Control Variable				
GDP	0.562199	0.127601	4.405911	0.0001
Weighted Statistics				
R-squared	0.719765			
Adjusted R-squared	0.636453			
Prob(F-statistic)	0.0000			
Durbin-Watson stat	1.916678			

Method: Panel EGLS (Cross-section fixed effects)

Source: Author's Computation 2013

5. CONCLUSION AND RECOMMENDATIONS

Empirical investigation of the impact of Nigerian banks' expenditure on Corporate Social Responsibility on profitability is important and makes a timely research. Today, banks are tending towards committing resources to socially responsible activities, such as energy conservation and support for diversity in the workplace. The question therefore is to determine whether investment in such social initiatives negatively or positively affects the banks' bottom line given that firms primarily exist to make profit. However, the result of this study shows that such expenditure does not impact on their profitability.

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Although the findings is consistent with the findings of Sebastian (2013) who found out that no significant relationship between exist between CSR and profitability, expenditure on CSR is of strategic importance to firms in the achievement of their objectives (Siegel and Vitaliano,2006). This is not to say that the public should be ignored in the decision making process of Nigerian banks but rather, in accordance with value maximization theory, they should be considered in a manner that shall not jeopardize their profit maximization. This may be established by analyzing the stakeholders' position regarding their interest and power relative to the companies' objectives using the Mendelow's framework.

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