

Effect of Corporate Social Responsibility on Performance of Commercial Banks Listed in Nairobi Stock Exchange.

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Abstract: Interest on Corporate Social Responsibility (CSR) has risen to great heights within the banking sector in the last decade. Commercial banks have increasingly embraced CSR disclosure practice on education and environmental operations. The relationship between CSR investments and financial performance is however unknown. This study investigated the effect of CSR dimensions relating to education and environmental conservation on performance of commercial banks listed in the Nairobi Stock Exchange. The paper employed desktop research by reviewing and analyzing audited published financial reports for the listed commercial banks in Kenya. 11 commercial banks listed by December 2017 were surveyed. CSR investments were measured using monetary expenditure on social activities, while financial performance was measured using net profit after tax. Data was analyzed using Karl Pearson correlation model to examine the relationship between the variables. The study analyzed data for the period 2012 to 2016. Results showed that investments in CSR activities are positively related to financial performance of commercial banks; thus banks which embraced a consistent approach to investing in CSR had high financial performance; with better customer loyalty. It also emerged that CSR programs build the bank's reputation, hence increase market share which consequently lead to high financial performance. We recommended that commercial banks and other institutions should consistently invest in CSR including education programs for the disadvantaged groups and environmental conservation programs as such investments lead to high financial performance.

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Introduction and Background

According to Hopkins (2004), CSR entails handling members of society as well as other interested parties of the business in a manner that is acceptable and aims at improving quality of their lives while at the same time preserving profitability. Mullin (2010), asserted CSR is beyond revenue, profit, and legal responsibilities. Adoption of Corporate Social Responsibility in the twenty-first

century is growing exponentially. Various scholars have given their views on commitment by the firms to make social investments. Whereas Friedman (1962) argued that the primary goal of a firm is to generate profits and that a firm ought not to put more focus on social investments, Freeman (1984) argued that businesses need to focus on creating value for their stakeholders for them to succeed.

Carol and Shabana (2011) argued that corporations need to embrace CSR in a bid to earn a good reputation and maintain legitimacy in society. Stakeholders too also want their firms to invest in corporate social responsibility. The pressure from social activists and NGOs for firms to adopt CSR has also increased. High level of market dynamism characterizes the modern world of business. Where customers now have a platform to articulate what they want from firms. Worldwide Campaigns such as the Bank Transfer Day held on November 5, 2011 urging customers to prefer the community banks have been on the rise. Governments of different states such as Boston, New York, Los Angeles and San Diego have taken initiatives to encourage their financial institutions to promote the communities in their neighbourhood through their services as a way of fighting poverty and making it easy to do business with them.

The stakeholders and investors have also pressured their firms to disclose information regarding their investments in Corporate Social Responsibility (Hooghiemstra, 2000). Ponn and Okoth, (2009) observed that some businesses out of will have responded to the demands by the investors and shareholders to disclose information regarding their investments on CSR. Some disclose the information on their websites or in annual reports. Ferreira and Ding (2014), observed that one of the significant shortcomings of social

investment is lack of standardized measures and disclosure for CSR. Kepkemoi (2010) reported no relationship between CSR and financial performance of Kenyan banking institutions while a similar study by Kipruto (2013) indicated a positive relationship between CSR and Financial performance. According to Gichana (2004), all the firms listed in the Nairobi Stock Exchange had incorporated CSR in their mission statements.

Garnt (1991) observed that it is possible for firms to achieve higher performance as a result of investing in social activities thus firms which increases their investments in CSR earn a future competitive advantage. Elsewhere Moore and Spence (2006), firms which invest highly in CSR activities easily attract highly skilled staff, customers and enjoy easy access to hostile markets and according to Marcia and Hassan (2013) customers tend to have a good perception of such firms. Similar results presented by Okoth (2012), Kitzmuelery and Shimshack (2012) and Margolis, et al (2007) among others.

On the contrary other researchers have reported no relationship between CSR investments and financial performance, Kepkemoi (2010), Nelling and Webb (2009) also concluded that there is no evidence for any relationship between CSR and the financial performance. These findings are contradicting and highly inconsistent, and creates a scholarly gap. This study investigated the effect of CSR investments on financial performance of commercial banks in

Kenya. The findings of the study will, potentially, be beneficial to corporate managers involved in making short term and long term decisions which affect financial performance of the firms.

Literature Review

Kepkemoi (2010) defines CSR as pursuance of wealth maximization goal without violation of the law. CSR contributes solutions to existing social problems in a community. According to Ogore and Kusa (2013), the financial performance of a company is influenced by internal and external factors and are affected by the decision made by the managers. Performance is also influenced by the size and age of a firm. Mirza and Javed (2013) noted that economic conditions, corporate governance, a sequence of relationships between investors, company management, the board and

other interested parties, and capital are the major determinants of financial performance. According to Bairathi (2009), good corporate governance is characterized by a transparent, efficient and fair administration and increases the accountability of a firm while weak governance creates a loophole for fund mismanagement (Wanjiru, 2013).

In a study conducted by Fauzi (2009), no relationship was reported between corporate social responsibility and financial performance. Elsewhere Fauzi and Rahman (2007) indicated that the connection between CSR and corporate financial performance is inconclusive. The study used a regression model and did not find a significant relationship between CSR and financial performance. In a 5-year study involving 422 firms, Tsoutsoura (2004) investigated the relationship between CSR and Financial Performance. Using regression model and established a positive relationship between financial performance and Corporate Social responsibility. Similar results were reported by Gheli (2013) used a regression model on 322 US firms and indicated a positive relationship between financial performance and CSR.

Elsewhere, Anastashia and Maria (2010) performed a similar study in the banking sector using data for 189 commercial banks using regression analysis and indicated no evidence that firms with high CSR activities have high financial performance.

Okwoma (2012) sampled 28 commercial banks and used a regression model to analyse data and reported a significant positive relationship between CSR and CFP and that investments in Corporate Social Responsibility did not CFP small banks. Ondieki (2013), used descriptive and inferential statistics to analyse data from firms listed on NSE and established a positive association between financial performance and CSR practices. Additional studies have reported similar results, (Kipruto, 2014). Wambui (2012) focused on the partnership between corporate firms and NGO's and reported a positive relationship between CFP and CSR.

A number of researchers have argued that investments in Corporate Social Responsibility by businesses bring long-term benefits to the firm indicating that CSR and financial

performance of firms are positively related (Weber, 2008). According to Angelidis, Massetti and Magree- Egan, (2008), the relationship between financial performance and CSR is the least understood aspect of social investments. Jensen and Meckling (1976) also argued that businesses can realize a long-term economic activity from solving a social problem. The authors argued that firms with high investments in CSR can easily get entry into new markets, maintain their customers, remain competitive and be in a better capacity to understand the needs and wants of the customers.

According to Marcia, et al (2013), customers like associating themselves with corporations which are perceived to be socially responsible. Lorraine (2009) also observed that the amount of CSR investments is also dependent on the size of the firm. Thus, large firms are associated with high CSR investments. Because of the contradicting results so far reported there is need for more research to determine the association between the CSR and the financial performance.

Methodology

This study employed desktop research by reviewing and analysing the audited published financial reports of 11 commercial banks listed on NSE as at Dec 2017 and data spanning five-year period between 2012 to 2016 analysed CSR investments were measured using the monetary expenditure on the social activities, while the Financial performance was measured using the net profit after tax. A descriptive research design was used in the study. The causation of CSR investments on the financial performance of the banks was explored through a survey for each bank. The study targeted the CSR investments made by the listed banks in Kenya for the period 2012 to 2016. Secondary data used for the analysis was retrieved from the banks' websites, published annual reports, NSE handbooks as well as published bank reports.

Table 1: Data Analysis, Interpretation and Presentation

Statistics

		CSR investment for education for Equity bank	CSR investment for Cop Bank in education	CSR investment for education for Barclays bank	CSR investment on education for CFC bank	CSR investment on education for Diamond trust bank	CSR investment on education for HF group	CSR investment on education for I & M bank	CSR investments on education by KCB	CSR investment on education for National Bank of Kenya	CSR investment on education for NIC bank	CSR investment on education for Standards chartered bank
N	Valid	5	5	5	5	5	5	5	5	5	5	5
	Missing	0	0	0	0	0	0	0	0	0	0	0
Mean		.0580	.0580	.0820	.02100	.0560	.0680	.05540	.1820	.0840	.0980	.08020
Std. Deviation		.00837	.03114	.00837	.009381	.01817	.01483	.032323	.10780	.03975	.01924	.012458
Skewness		.512	-.933	-.512	.027	.567	.552	-1.225	-.538	1.538	1.517	-1.302
Std. Error of Skewness		.913	.913	.913	.913	.913	.913	.913	.913	.913	.913	.913
Minimum		.05	.01	.07	.010	.04	.05	.003	.06	.05	.08	.060
Maximum		.07	.09	.09	.031	.08	.09	.090	.28	.15	.13	.091

Table 1 above shows the various averages for CSR investments in education by the various commercial banks. Data relating to education investment by the banks for the five year spanning 2012-2016 analysed. The average investment for Equity bank on education for the period between 2012 and 2016 was Ksh 0.058 billion which was similar to that of the cooperative bank. Barclays bank invested an average of Ksh 0.082 billion on education, CFC invested an average of Ksh 0.021 billion, DTB Ksh 0.056 billion, HF group Ksh 0.068 Billion, I & M bank Ksh 0.0554 Billion, KCB Ksh 0.182 billion, National Bank of Kenya Ksh 0.084 billion, NIC bank Ksh 0.098 billion and Standard chartered bank invested Ksh 0.0802 billion. The data presented on table 1 indicates that the Kenya Commercial Bank invested the highest amount of money on CSR activities relating to education than other banks within the same period. The standard deviation for equity bank, cooperative bank, Barclays, CFC, DTB, HF group, I & M, KCB, National bank, NIC bank and Standard Chartered banks were 0.00837, 0.03114, 0.00837, 0.009381, 0.01483, 0.032323, 0.1078, 0.03975, 0.01924 and 0.12458 respectively.

Table 2: Mean Investment by the Listed Banks on Environmental Conservation

Statistics

	CSR investment on environment for Equity bank	CSR investment for Cop Bank on environment	CSR investment for Barclays Bank on environment	CSR investment for CFC Bank on environment	CSR investment for Diamond Trust Bank on environment	CSR investment for HF Group on environment	CSR investment for I&M Bank on environment	CSR investment for KCB on environment	CSR investment for NCB on environment	CSR investment for NIC Bank on environment	CSR investment for Standard chartered Bank on environment
N	Valid Missing	5 0	5 0	5 0	5 0	5 0	5 0	5 0	5 0	5 0	5 0
Mean		.1240	.0700	.0720	.0148	.0560	.0680	.0696	.0940	.0620	.0880
Std. Deviation		.05595	.04301	.01304	.00554	.01517	.01304	.08732	.04393	.01643	.00837
Skewness		.089	-.754	.541	1.501	1.118	-.541	1.050	1.882	-.518	.512
Std. Error of Skewness		.913	.913	.913	.913	.913	.913	.913	.913	.913	.913
Minimum		.05	.01	.06	.01	.04	.05	.00	.06	.04	.08
Maximum		.20	.11	.09	.02	.08	.08	.20	.17	.08	.10

Data presented on table 2 above indicate that the average investment for Equity bank on environment for the period 2012 to 2016 was Ksh 0.1240 billion, Cooperative bank 0.7, Barclays bank Ksh 0.072 billion on environment, CFC invested an average of Ksh 0.0148 billion, DTB Ksh 0.056 billion, HF group Ksh 0.068 Billion, I & M bank Ksh 0.696 Billion, KCB Ksh 0.094 billion, National Bank of Kenya Ksh 0.062 billion, NIC bank Ksh 0.088 billion and Standard chartered bank Ksh 0.08 billion. Equity bank had the highest investment in environmental activities estimated at 0.1240. The standard deviation for equity bank, cooperative bank, Barclays, CFC, DTB, HF group, I & M, KCB, National bank, NIC bank and Standard Chartered banks were 0.5595, 0.4301, 0.1304, 0.00554, 0.1517, 0.01304, 0.08732, 0.04393, 0.1643, 0.00837 and 0.02236 respectively. I & M bank had the highest variance.

Table 3: Average Net Profits by the Listed Banks

Statistics

	Net profit for Equity Bank	Net profit for Cop Bank	Net profit for Barclays Bank	Net profit for CFC Bank	Net profit for DTB Bank	Net profit for HFgroup	Net profit for I & M Bank	Net profit for KCB Bank	Net profit for National Bank of Kenya	Net profit for NIC Bank	Net profit for Standard chartered Bank
N	Valid Missing	5 0	5 0	5 0	5 0	5 0	5 0	5 0	5 0	5 0	5 0
Mean		18.61745100	9.84576000	8.11020000	4.62360620	7.17404200	1.34782540	19.97731180	13.27544500	.80710760	5.34538280
Std. Deviation		8.502957826	2.228705499	.570593210	1.025557862	4.066900782	3.16808445	29.02040077	2.928507652	.399496174	3.686009879
Skewness		1.828	.490	-.401	-1.197	1.955	-.255	2.145	-1.171	-1.295	2.090
Std. Error of Skewness		.913	.913	.913	.913	.913	.913	.913	.913	.913	.913
Minimum		12.080255	7.723858	7.399000	2.979891	4.067968	.907831	4.119558	9.368678	.162190	3.036794
Maximum		33.251000	12.676210	8.741000	5.686661	14.263252	1.753518	71.444110	16.499407	1.153477	11.851020

Data presented on table 3 above indicate that the mean net profit for the period between 2012 and 2016 was Ksh 18.617451 billion, Cooperative bank 9.84576, Barclays bank Ksh 8.1102 billion, CFC Ksh 4.6236062 billion, DTB Ksh 7.174042 billion, HF group Ksh

1.34782540 Billion, I & M bank Ksh 19.9773 Billion, KCB Ksh 13.2754425 billion, National Bank of Kenya Ksh 0.80710760 billion, NIC bank Ksh 5.34835280 billion and Standard chartered bank invested Ksh 8.57984540 billion. The standard deviation for equity bank, cooperative bank, Barclays, CFC, DTB, HF group, I & M, KCB, National bank, NIC bank and Standard Chartered banks were 8.5030, 2.2287, 0.5706, 1.0256, 4.0669, 0.3168, 29.0204, 2.9285, 0.3995, 3.6860 and 1.5184 respectively. The data indicates the banks which have high investments in CSR activities relating to education and environment had high

net profits. Equity bank with the highest investments in environmental CSR on average recorded high net profit of 18.62 billion followed by KCB with a net profit of 13.28 billion.

Table 4: Coefficient between individual banks financial performance and CSR investment in education and environment

BANK	Correlation Between Net Profit And CSR on Education	Correlation Between Net Profit CSR on Environment
EQUITY BANK	0.724	-0.336
COPERATIVE BANK	0.888	0.330
BARCLAYS BANK	0.270	0.069
CFC BANK	0.730	-0.678
DTB	0.743	0.881
HOUSING FINANCE	0.273	0.130
I & M BANK	0.659	0.898
KCB	0.845	0.044
NATIONAL BANK	0.687	0.661
NIC BANK	0.969	0.798
STANCHART BANK	0.952	0.851

The Data presented on table 4 demonstrate a positive correlation between the two independent variables and financial performance except for a few cases that show a negative correlation. The correlation coefficient between the CSR investment by Equity bank on education and environment is -0.336 and 0.724 respectively. This means that expenditures by equity bank on education are negatively related to the financial performance of the bank while the CSR investments on the environment are positively related to the financial performance. A coefficient correlation of 0.724 indicates a very strong

relationship between CSR investments on environment and the financial performance. This implies that an increase in investments for Environmental activities leads to increase in overall financial performance of the bank. The negative correlation of -0.336 indicates that an increase in CSR investments in education is associated with a decrease in financial performance.

Cooperative bank has a positive correlation of 0.880 and 0.330 for CSR investments in education and environment respectively showing solid correlation between CSR investments for education and financial performance. 0.880 is close to 1 meaning a positive change in the amounts invested in education lead to significant positive change in the overall financial performance of the bank. Conversely the correlation

coefficient of 0.33 for environment indicates a weak positive relationship between the CSR investments made on environment and financial performance.

There was a positive correlation between the overall financial performance and CSR investments both in education and environment for Barclays bank. The correlation between the net the net profit and CSR investment on education

was 0.27, showing a weak positive relationship between the two variables. This implies that a positive change in the amount invested in education would lead to less than proportionate change in the overall financial performance of the bank. On the other hand correlation coefficient between the financial performance and the CSR amounts invested by the bank on the environment is 0.069 giving a weak positive relationship between the two variables.

CFC bank recorded a positive relationship between the overall financial performance and the CSR amounts invested in education, however, there was a negative correlation between CSR amounts invested on the environment and the financial performance. The correlation between the bank's financial performance and the amounts invested on education is 0.73, meaning a strong positive relationship between the two variables implying that higher investments in CSR activities in education lead to a higher net profit. On the other hand, the correlation coefficient between the amounts invested on the environment and

the overall financial performance of the bank is -0.678 implying that there is a strong negative relationship between the two variables. Thus an increase in CSR investment for environment leads to a decrease in the financial performance.

The correlation coefficient between CSR investments in education and the overall financial performance for Diamond Trust Bank, Housing Finance group, I & M, KCB, National bank of Kenya, NIC bank and standard chartered are 0.743, 0.273, 0.659, 0.845, 0.687, 0.969 and 0.952 respectively indicating a strong positive relationship between the variables for the banks in the rank of NIC; Standard chartered, KCB, DTB, National Bank of Kenya, I&M and HF group indicating the weakest positive relationship.

The correlation coefficient between CSR investments in environment and the net profit after tax for Diamond Trust Bank, Housing Finance group, I & M, KCB, National bank of Kenya, NIC bank and standard chartered are 0.881, 0.13, 0.898, 0.044, 0.661, 0.798 and 0.851 respectively indicating a positive relationship between the two variables for the aforementioned banks with I & M bank having the strongest positive relationship of 0.898 and KCB having the weakest positive relationship of 0.044.

Table 5: Coefficients for Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-4.155	2.403		-1.729	.122
CSR investments on education	16.331	6.849	.651	2.385	.044
CSR investments on environment	6.093	5.494	.303	1.109	.300

a. Dependent Variable: Financial performance for Commercial Banks

Table 5 shows the coefficients of the regression model which was deduced as follows:

$$\text{Financial Performance} = - 4.155 + 16.331X_1 + 6.093X_2.$$

CSR investments on education were found to be significant as indicated by the sig value of 0.044 while that of CSR on environment was found to be insignificant as indicated by the p value of 0.300. A sig value of below 0.05 indicates that the relationship between the variables is significant. The sig value of 0.044 for education means that the CSR investments for education significantly affects the financial performance of the commercial banks. A sig value of 0.300 means that CSR on environment does not significantly affects the financial performance.

Table 6: Testing the Goodness of Fit for the Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.929 ^a	.862	.828	2.60666

a. Predictors: (Constant), CSR investments on environment , CSR investments on education

As shown in table 6 above, R is 0.929 indicating a very strong relationship between CSR education, environment and the financial performance. R square is 0.862 meaning that 86.2% of the financial performance can be explained changes in CSR investments on education and Environment. This means that the results of the model can be relied upon.

Table 7: ANOVA^a

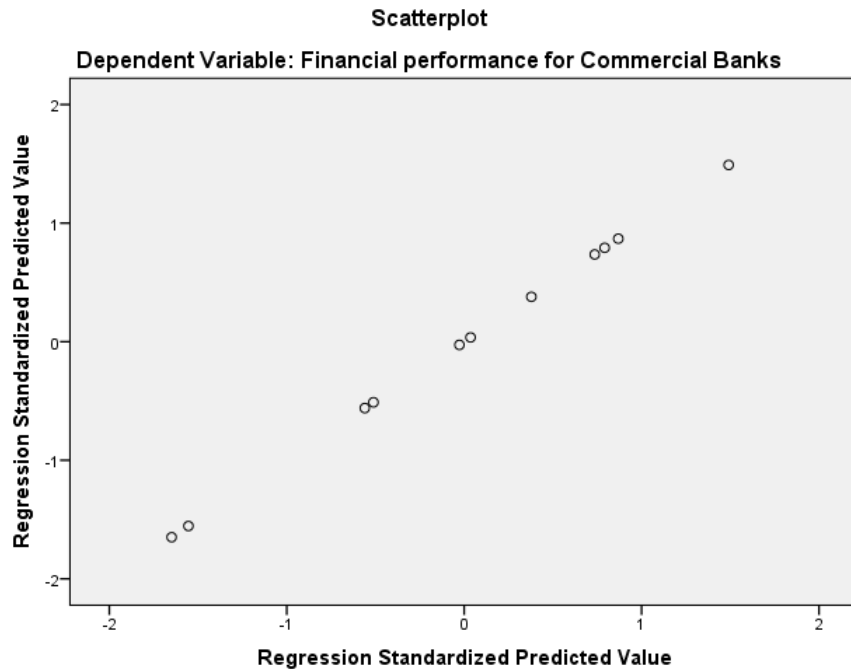
Model		Sum of Squares	df	Mean Square	F
1	Regression	339.943	2	169.971	25.015
	Residual	54.357	8	6.795	
	Total	394.300	10		

a. Dependent Variable: Financial performance for Commercial Banks

b. Predictors: (Constant), CSR investments on environment , CSR investments on education

Overall of this study demonstrate that the relationship between corporate social responsibility and financial performance is significant as indicated by the results $F(2, 8) = 25.015$, $P = 0.000$. The relationship between the variables are presented graphically on figure 1 below.

Figure 1: Financial Performance of Commercial Banks



Discussion

The main aim of the study was to determine the effect of corporate social responsibility on the financial performance of commercial banks listed in Nairobi Stock Exchange. There was a positive relationship between the financial performance of the commercial banks and the CSR investments in education and the environment. Thus, commercial banks should make deliberate budgetary allocations for corporate social responsibility. The education programs carried out by the banks as well as the initiatives undertaken by the banks to conserve the environment contribute to financial success of the banks, thus get high returns. The desire of firms to behave morally and ethically should, therefore, be a daily endeavour as customers are continuously placing high value on social and moral responsibility. Thus, customers are more likely to associate themselves with firms which demonstrate efforts to support societal needs.

The best performing banks in Kenya have been investing sufficiently in CSR and this makes them more attractive to investors, volunteers, and sponsors. The commitment to being a good corporate citizen comes along with high rewards from the customers, government favours, tax exemptions and attraction of

capital. This study, therefore, demonstrated a link between CSR and Financial performance of the listed banks in Kenya. Some banks have also established independent foundations to spearhead the CSR activities across their areas of operations. The results of this study, therefore, agrees with the findings of Okwoma (2012), Kipruto (2010), Wambui (2012) and Obusubiri (2006) that CSR investments affect the financial performance of firms.

Recommendations

- 1) It is recommended that corporate managers should do a cost-benefit analysis while determining the amount of money to invest in CSR. Thus although social investments are good for the society, the banks are also expected to meet the needs of the shareholders. There is a need for managers to maintain a balance between the extreme of CSR investments and financial returns. It is therefore very important for managers to select the most appropriate CSR portfolio which maximizes satisfaction in meeting the needs of the society and those of the shareholders.
- 2) More studies be conducted on smaller banks and microfinance institutions as well as other industry players such as communication sector, manufacturing sector, mining industry, to ascertain whether or not such institutions can enhance profitability through CSR activities.

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