

Impact of Corporate Social Responsibility on Financial Performance of Ethiopian Commercial Banks: A Case Study of Wegagen Bank S.C

Teshale Getu

Department of Finance,
Parul University, Gujarat State, India,
teshalege@gmail.com

Dr. Nidhi Nalwaya

Faculty of Commerce,
Parul University, Gujarat State, India,
nidhi.nalwaya90738@paruluniversity.ac.in

Abstract

The integration of fundamental elements of corporate social responsibility (CSR) into financial institutions and banking policies and procedures is essential for mitigating compliance-related risks. This research explores how corporate social responsibility influences the financial performance of Wegagen Bank S.C., a commercial banking institution in Ethiopia. This study investigates the impacts of corporate social responsibility on the financial performance of Wegagen Bank S.C., a commercial bank in Ethiopia. Utilizing an explanatory research design, this study employs quantitative and qualitative methods. Data was collected via purposive sampling by using questionnaires and interviews for primary data, and document reviews for secondary data. Statistical analysis, conducted using SPSS version 20, included tools such as correlation, regression, percentages, and trend analysis. The findings highlight a range of CSR activities conducted by the bank, demonstrating a affirmative link between corporate social responsibility initiatives and financial performance. Challenges identified include limited research, implementation difficulties, and credibility issues. Opportunities include enhancing the corporate image, increasing deposits, attracting foreign currency, and acquiring new customers.

Keywords: Corporate Social Responsibility, Ethiopia, Financial Performance, Banks

Introduction

The notion of corporate social responsibility has developed significantly, gaining substantial scholarly attention over the past fifty years. Various definitions and theories have emerged, leading to some confusion. Through a comprehensive literature review, three key features of CSR have been identified: the integration of economic, social, and environmental dimensions; the responsibility to all stakeholders, not just shareholders; and the voluntary nature of CSR practices. These features illustrate how incorporating CSR into business operations reshapes both organizational conduct and stakeholder relationships, aligning them with profit maximization goals. Despite initial costs, such as investments in environmentally friendly

technology, the long-term benefits, including improved reputation, are well recognized. However, businesses require assurance of the value that CSR adds to justify these investments.

There is no consensus among scholars about the correlation amid Corporate Social Responsibilities and firm productive functioning. The neo-classical view, advocated by Friedman (1970), posits that firms should focus solely on maximizing shareholder value, viewing CSR as a diversion from this goal. Conversely, behavioral theorists argue for the pursuit of social good, regardless of direct financial benefits. Holmes (1976) suggested that businesses should address social issues even without immediate profit potential, reflecting a more philanthropic stance. This perspective, however, is often seen as overly idealistic in today's profit-driven environment. CSR has now evolved into a public movement, with increased demands for corporate accountability from consumers, investors, and employees. This study intentions to explore impact of corporate social responsibility on the financial performance of Wegagen Bank S.C., a commercial bank in Ethiopia.

Review of Literature

CSR is known by various terms such as strategic philanthropy, corporate citizenship, and social responsibility, but fundamentally it involves creating "shared value" (Carroll, 1979). Banks play a fundamental role in financial systems and economies, necessitating a regulatory framework to ensure stability, especially given their reliance on borrowed funds. New product promotion and brand development are essential in competitive markets, where socially responsible business practices serve as strategic tools.

Theoretical Review

Several models have been developed to capture CSR's multi-dimensional construct, emphasizing the interdependence of economic, ethical, legal, and philanthropic responsibilities (Carroll, 1991). These dimensions are defined as follows:

- **Economic Responsibility:** Firms are established to provide goods and services profitably, forming the foundation of other responsibilities.

- **Legal Responsibility:** Firms must comply with laws and regulations governing the market and society.
- **Ethical Responsibility:** Firms should adhere to societal norms and values that go beyond legal requirements.
- **Philanthropic Responsibility:** Society expects firms to contribute to communal well-being, demonstrating good citizenship.

Stakeholders Approach to CSR

Freeman (1984) defines stakeholders as groups or individuals affecting or affected by the organization's objectives. Stakeholder theory posits that firms should generate value for all participants by converting their stakes into goods and services, benefiting customers, suppliers, employees, owners, and local communities (Freeman, 1988).

Models of Social Responsibility

Walton (1967) and subsequent researchers suggested various models of organizational responses to social responsibility:

1. **Austere Model:** Focuses on ownership interest and profit, with minimal social responsibility.
2. **Household Model:** Prioritizes employee benefits, with limited social responsibility.
3. **Vendor Model:** Emphasizes consumer interests and rights, with moderate social responsibility.
4. **Investment Model:** Aims for long-term profit and survival, with increasing social responsibility.
5. **Civil Model:** Views organizations as corporate citizens committed to societal needs.

Principles of CSR

Crowther and Aras (2008) identify three fundamental principles of CSR: accountability, sustainability, and transparency, encompassing the overall activities of corporate social responsibility.

Measures of CSR

Measuring CSR is complex, with Hasan et al. (2011) suggesting reputation index and content analysis methods. Griffin & Mahon (1997) propose social audits and CSR

processes as measures, while Bemhut (2002) developed a performance measure based on managerial assessment of CSR principles and values.

Financial Performance Measures

Traditional financial performance measures focus on tangible assets, often overlooking intangible assets like customer relationships and employee satisfaction (Lev, 2000). Commonly used system of measurement includes Return on Assets (ROA) and Return on Equity (ROE) (Waddock & Graves, 1997), with accounting-based measures being valuable indicators of profitability.

Empirical Evidence

Recent empirical studies continue to demonstrate mixed results concerning the connection among corporate social responsibility and financial performance. For example, an analysis by Baird et al. (2012) reassessed the correlation using industry effects besides found a positive correlation in certain sectors, suggesting that the impact of CSR may be context-dependent. Additionally, Hasan et al. (2011) highlighted the importance of CSR in enhancing a company's reputation and customer loyalty, which indirectly contributes to financial performance. These findings align with the results of this study, reinforcing the affirmative relationship observed among CSR activities and financial performance in Wegagen Bank S.C.

Research gap

It is known that a tremendous studies have been done to find out the relationship of CSR and the firms' financial performance. Some attempts to explain the economic benefits of having a sound long term financial success and have explored its effect on real sector outcomes, including national economic growth and income distribution (Levine, 1991). There are so many arguments on the relationship between corporate social responsibility and financial performance of a firm.

Research Methodology

This study employs an explanatory research design, employing quantitative and qualitative methods. The focus population includes all work force affiliates of Wegagen Bank S.C., totalling 3,726 employees. A purposive

sampling technique employed to privileged samples, focusing on management and staff from six directorates directly or indirectly related to CSR policies and programs.

Study Population

The research population encompasses the entire collection of individuals that the scholar aimed to study (Sekaran, 2003). Accordingly, all staffs of Wegagen Bank S.C. with a working force of 3,726 staffs was the entire population of the research includes both permanent and contract employees from the top management to the line workers.

Sample Design

Non-probability purposive sampling was employed, with a total of 60 questionnaires considered and self-administered to selected management members and staff. The self-administered questionnaire allowed respondents to answer at their convenience. Additionally, semi-structured interviews were conducted with two top management members from the corporate strategy and marketing directorates.

Sample Size

The bank has 980 management members, 2,623 permanent non-management operational staffs and 123 contract workers giving a total of 3,726. As noted in the introduction, Wegagen Bank is supervised by a Board of Directors that includes a chairperson, a Vice-Chairperson, and seven other Directors. The overall management is delegated towards a panel comprising the President or Chief Executive Officer (CEO), selected by the Board of Directors (BODs), along with four Vice Presidents, fourteen Directors, and the Manager of district offices. Therefore a survey study is conducted by selecting six of the fourteen directorates; namely branch operation directorates, customer relationship management directorates, corporate strategy and change management directorates, marketing and corporate communications directorates, credit analysis and portfolio management directorates and accounts and reconciliation directorates because top management members in the selected directorates are the forerunners of the organization and the above six selected directorates directly or indirectly have relation with policies and programmes of CSR. Each

directorates have nine staff under them except branch operation and accounts and reconciliation directorates have twelve staff each under the including the directorate. In each directorate office there is one director, two managers and two supervisors. The rest are senior and junior operational officers. Surveys are a widely utilized strategy in business and management research, often employed to address questions such as who, what, where, how much, and how many. This method is commonly used for exploratory and descriptive research. Additionally, survey data can provide insights into the potential reasons behind specific relationships between variables and help develop models to represent these relationships (Mark S. et al., 2009).

Sources of Data

Primary data, collected for the first time, are original in nature. Herein study, questionnaires and semi-structured interviews were accustomed to gather primary data from respondents. Secondary data, previously collected by others and available as published or unpublished sources,

were also utilized. For this study, secondary data were obtained from the bank's audited annual financial reports and other publications over a five-year period, from 2016 to 2021.

Data Collection Techniques

Primary data were gathered by self-administered surveys and semi-structured interviews. Secondary data were sourced from the bank's audited annual financial reports and other publications spanning from 2016 to 2021. The data were analyzed using SPSS, employing methods such as correlation, regression, percentages, and trend analysis.

Data Analysis

Data analysis involved computing measures and identifying patterns of relationships among data groups. Correlation analysis described the potency and course of relationships among CSR activities and financial performance, while trend analysis assessed changes over time.

Data Analysis and Discussion

Table 4.1: Respondents Age Distribution

Age Group	Freq.	%	Valid %	Cumulative %
= 30 years	13	23.2%	23.2%	23.2%
31-40 years	32	57.1%	57.1%	80.4%
41-50 years	9	16.1%	16.1%	96.4%
51 years and above	2	3.6%	3.6%	100.0%
Total	56	100%	100%	100%

(Source: Survey 2021)

The age distribution of participants expressions indicated that the majority are between 31-40 years old (57.1%), which indicates that the bank has a relatively young workforce. This age group is typically characterized by high energy levels, adaptability to new technologies, and innovative thinking, which can positively influence the bank's operational efficiency and service delivery. The

presence of younger employees (23.2% under 30 years) suggests a potential for long-term development within the organization, while the smaller percentage of employees over 50 years old (3.6%) may imply less representation of experienced staff who could provide mentorship and stability.

Table 4.2: Respondents Gender Distribution

Gender	Freq	%	Valid %t	Cumulative %
Male	46	82.1%	82.1%	82.1%
Female	10	17.9%	17.9%	100.0%
Total	56	100%	100%	100%

(Source: Survey 2021)

The gender distribution indicates a significant male dominance in the workforce (82.1%), with females comprising only 17.9%. This disparity suggests potential gender inequality in hiring or promotion practices. It is

important for the bank to address this imbalance to foster a more inclusive work environment, which has been shown to enhance organizational performance and innovation.

Table 4.3: Respondents Marital Status

Marital Status	Freq.	%	Valid %	Cumulative %
Married	33	58.9%	58.9%	58.9%
Single	23	41.1%	41.1%	100.0%
Total	56	100%	100%	100%

(Source: Survey 2021)

With 58.9% of respondents being married, it indicates that a significant portion of the workforce has familial responsibilities. This can impact their work-life balance and may necessitate the implementation of supportive policies such as flexible working hours or family leave

programs to enhance employee satisfaction and productivity. The 41.1% single respondents represent a demographic that might be more flexible and willing to engage in extensive work commitments, contributing to the bank's dynamic environment.

Table 4.4: Respondents Level of Education

Education Level	Freq.	%	Valid %	Cumulative %
Tertiary	48	85.7%	85.7%	85.7%
Masters	8	14.3%	14.3%	100.0%
Total	56	100%	100%	100%

(Source: Survey 2021)

The high level of education among respondents, with 85.7% having tertiary education and 14.3% holding a master's degree, suggests that the bank has a well-educated workforce. This level of education is likely to contribute to more efficient

problem-solving, better decision-making, and enhanced overall performance. Investing in continuous education and training programs could further enhance the capabilities of the staff, aligning with the bank's strategic goals.

Table 4.5: Respondents Work Experience in Banks

Years in Bank	Freq.	%	Valid %	Cumulative %
1-3 years	13	23.2%	23.2%	23.2%
4-6 years	29	51.8%	51.8%	75.0%
7-10 years	9	16.1%	16.1%	91.1%
11 years and above	5	8.9%	8.9%	100.0%
Total	56	100%	100%	100%

(Source: Survey 2021)

A majority of participants have been with the bank for less than six years (75%), indicating a relatively recent workforce. This could be reflective of high turnover rates or recent expansion efforts. It suggests the need for strong

onboarding programs and retention strategies to maintain institutional knowledge and continuity. The smaller proportion of employees with over 11 years of experience (8.9%) highlights the necessity of retaining experienced staff to provide guidance and stability within the company.

Table 4.6: Current Position of Participants in the Bank

Position	Freq.	%	Valid %	Cumulative %
Top management	6	10.7%	10.7%	10.7%
Manager	12	21.4%	21.4%	32.1%
Supervisor	11	19.6%	19.6%	51.8%
Officer	26	46.4%	46.4%	98.2%
Auditor	1	1.8%	1.8%	100.0%
Total	56	100%	100%	100%

(Source: Survey 2021)

Officers form the largest group (46.4%), followed by managers (21.4%) and supervisors (19.6%). This distribution suggests that the majority of the workforce is involved in operational roles, which are crucial for day-to-day banking activities. The relatively smaller proportion of

top management (10.7%) indicates a hierarchical structure with fewer decision-makers at the top. Ensuring that there is effective communication and feedback mechanisms between these levels can enhance operational efficiency and strategic alignment.

Participation in CSR Activities

Table 4.7: Bank's Participation in CSR Activities

Participation	Freq.	%	Valid %	Cumulative %
Yes	56	100.0%	100.0%	100.0%
Total	56	100.0%	100.0%	100.0%

(Source: Study findings 2021)

All respondents confirmed that the bank participates in CSR activities (100%), reflecting the bank's commitment to social responsibility. This unanimous agreement underscores the importance placed on CSR within the

organizational culture and suggests a widespread awareness and support for CSR initiatives among employees.

Table 4.8: Types of CSR Activities

CSR Activity	Yes (Frequency)	Yes (%)	No (Frequency)	No (%)
Government projects	49	87.5%	7	12.5%
Donation to NGOs	23	41.1%	33	58.9%
Involvement in community activities	7	12.5%	49	87.5%
Support for sports, arts, culture	28	50.0%	28	50.0%
Disaster and humanitarian activities	45	80.4%	11	19.6%
Environmental conservation	40	71.4%	16	28.6%

(Source: Study findings 2021)

The bank's CSR activities are diverse, with a significant focus on government projects (87.5%) and disaster and humanitarian activities (80.4%). This indicates a strong alignment with national priorities and emergency response efforts. The lower involvement in community activities (12.5%) suggests an area for potential growth, as

community engagement can enhance local relationships and brand loyalty. Environmental conservation (71.4%) and support for sports, arts, and culture (50%) also feature prominently, reflecting a balanced approach to CSR that addresses multiple aspects of societal well-being.

Table 4.9: Contribution of Respondents in corporate social responsibility Activities

Participation Type	Freq.	%	Valid %	Cumulative %
Recipient	1	1.8%	1.8%	1.8%
Facilitator	14	25.0%	25.0%	26.8%
No participation	41	73.2%	73.2%	100.0%
Total	56	100%	100%	100%

(Source: Study findings 2021)

Most respondents (73.2%) did not participate directly in CSR activities, which might indicate a need for better employee engagement strategies in CSR. Encouraging

more employees to act as facilitators (currently 25.0%) can foster a deeper connection with CSR initiatives, enhancing the overall impact of the bank's social responsibility efforts.

Table 4.10: Trend in CSR Activities and Expenses

Trend in CSR Activities	Freq.	%	Valid %	Cumulative %
Increasing	51	91.1%	91.1%	91.1%
Constant	5	8.9%	8.9%	100.0%
Total	56	100%	100%	100%

(Source: Survey2021)

A significant majority (91.1%) of respondents perceive that CSR activities and expenditures are increasing. This trend indicates a growing commitment by the bank to enhance its

social responsibility efforts, which can positively affect its reputation and stakeholder relationships over time.

Relationship Between Corporate Social Responsibility Activities and Financial Performance

Table 4.13: Connection Among Corporate Social Responsibility Activities and Financial Performance

Relationship	Freq.	%	Valid %	Cumulative %
Yes	43	76.8%	76.8%	76.8%
No	13	23.2%	23.2%	100.0%
Total	56	100%	100%	100%

(Source: Study findings 2021)

A substantial majority of respondents (76.8%) believe there is a link among corporate social responsibility activities and financial performance. This perception suggests that the

bank's CSR initiatives are seen as beneficial to its financial health, potentially through enhanced customer loyalty, brand reputation, and operational efficiencies.

Table 4.14: Direction of Relationship Between Financial Performance and Corporate Social Responsibility Activities

Relationship Type	Freq.	%	Valid %	Cumulative %
Positive relationship	42	75.0%	75.0%	75.0%
No relationship	13	23.2%	23.2%	98.2%
Negative relationship	1	1.8%	1.8%	100.0%
Total	56	100%	100%	100%

(Source: Study findings 2021)

Most respondents (75.0%) indicate an affirmative link among financial performance and Corporate Social Responsibility activities, reinforcing the idea that can corporate social responsibility provide to business success. Only a small fraction (1.8%) perceives a negative

relationship, suggesting that for the vast majority, CSR activities are seen as enhancing financial performance, likely through improved stakeholder relations and operational efficiencies.

Correlation Analysis

Table 4.16: Correlation Between CSR Activity and Financial Performance

Variables	CSR Activity	Profit Before Tax	Profit After Tax	ROA	ROE
CSR Activity in Birr	Pearson Corr.	1	0.600	0.500	0.100
Sig. (2-tailed)		0.285	0.391	0.873	
N	5	5	5	5	5
Profit Before Tax	Pearson Corr.	0.600	1	0.700	0.300
Sig. (2-tailed)			0.188	0.624	
N	5	5	5	5	5
Profit After Tax	Pearson Corr.	0.500	0.700	1	0.700
Sig. (2-tailed)		0.391	0.188		0.188
N	5	5	5	5	5
ROA	Pearson Corr.	0.100	0.300	0.700	1
Sig. (2-tailed)		0.873	0.624	0.188	
N	5	5	5	5	5
ROE	Pearson Corr.	0.100	0.300	0.700	1.000**
Sig. (2-tailed)		0.873	0.624	0.188	0.000
N	5	5	5	5	5

Note: Relationship is significant at the 0.01 level (2-tailed)

The correlation analysis discovers that CSR activities in Birr have a moderate positive correlation with profit before tax (0.600) and profit after tax (0.500), although these correlations are not statistically significant at the 0.05 level. This indicates that increased CSR expenditure is associated

with higher profits, supporting the notion that CSR can enhance financial performance. However, the weak correlations with ROA (0.100) and ROE (0.100) imply that the effect of CSR on these specific financial metrics may be limited or influenced by other factors.

Trends in Relationship Between CSR Activities and Financial Performance

Table 4.15: Trends in Relationship Between CSR Activities and Financial Performance

Years	CSR Activities (No.)	CSR Activities (Birr)	Profit Before Tax	Profit After Tax	ROA	ROE
2015/16	1	2.5 million	458 million	335 million	5.50%	39.80%
2016/17	2	140 thousand	450 million	340 million	3.10%	17.80%
2017/18	-	-	414 million	318 million	3.00%	16.00%
2019/20	1	2.7 million	453 million	352 million	2.60%	14.60%
2020/21	1	550 thousand	478 million	375 million	2.50%	14.40%

(Source: Study findings from the bank's annual reports 2015/16-2020/21)

The trends show fluctuations in CSR activities and their corresponding expenditures over the years, with CSR spending peaking at 2.7 million Birr in 2019/20. Despite these fluctuations, the bank's profits before and after tax remained relatively stable, indicating a resilient financial performance. The decline in ROA and ROE over the years suggests that while CSR activities might contribute to profitability, their impact on asset and equity returns is more nuanced and potentially influenced by other operational factors. This trend underscores the significance of balancing Corporate Social Responsibility initiatives with overall business strategy to ensure sustainable financial performance.

Conclusion and Recommendation

Conclusion

This paper aimed to examine the link among financial performance and corporate social responsibility of Wegagen Bank the S.C., an Ethiopian commercial bank. The results denote an optimistic correlation amid CSR activities and the financial performance metrics, including pre- and post-tax profit, ROA, and ROE. The study also highlights the complexity of the relationship, showing that the impact of Corporate Social Responsibility activities on financial performance is not always immediate or directly proportional.

Key findings include:

- Positive Correlation:** The study establishes a significant positive correlation concerning CSR activities and financial performance indicators, suggesting that CSR initiatives can enhance the bank's profitability and overall performance.
- Challenges in CSR Implementation:** Several challenges hinder the effective implementation of CSR activities, including limited resources, lack of research, problems with implementation and follow-up, and credibility issues.
- Opportunities through CSR:** Engaging in CSR activities presents opportunities for the bank, such as building a positive corporate image, attracting new customers, increasing deposits, and gaining foreign currency through partnerships with NGOs.
- Despite these findings, the study also identified that the nexus between financial performance and corporate social responsibility varies based on business nature. For instance, manufacturing firms might experience a different impact compared to banks due to the nature of their operations and their direct impact on the community.

Recommendation

Based on the findings, several recommendations are proposed to enhance the impact of CSR activities on the financial performance of Wegagen Bank S.C.:

- Develop a Strategic CSR Plan:** The bank should develop a well-structured CSR strategy that aligns with its business goals and societal needs. This plan should include clear objectives, targeted activities, and measurable outcomes.
- Increase Employee Engagement:** To improve the effectiveness of CSR initiatives, the bank should encourage greater employee participation in CSR activities. This can be achieved through training,

awareness programs, and incentives for involvement.

- **Enhance Transparency and Accountability:** The bank should ensure transparency and accountability in its CSR activities by regularly publishing detailed reports on CSR expenditures, activities, and outcomes. This will help build trust and credibility among stakeholders.
- **Leverage Government Incentives:** The government should provide incentives, such as tax breaks, to encourage banks and other businesses to invest in CSR activities. This support can enhance the overall impact of CSR on societal development.
- **Conduct Further Research:** Supplementary exploration is needed to study long-term effect of CSR activities on financial performance across different sectors. This will help in understanding the varying effects and tailoring CSR strategies accordingly.
- **Focus on Sustainable CSR Activities:** The bank should prioritize sustainable CSR activities that offer long-term benefits to the community and the environment. This includes initiatives in education, healthcare, environmental conservation, and poverty alleviation.

Future Research Directions

- **Stakeholder Perception:** Further research should focus on understanding stakeholder perceptions of CSR initiatives within the banking industry to ensure that these activities meet their expectations and deliver intended benefits.
- **Comparative Studies:** Comparative studies across different sectors and regions can provide deeper understandings into the connection amid Corporate Social Responsibility and financial performance, helping to identify best practices and effective strategies.
- **Impact Assessment:** There is a need for robust impact assessment methodologies to evaluate the effectiveness of CSR activities accurately. This can include both quantitative and qualitative measures to capture the full scope of CSR impacts.

- By implementing these recommendations, Wegagen Bank S.C. can enhance the effectiveness of its CSR initiatives, improve its financial performance, and contribute positively to societal development.

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