



Gusau Journal of Accounting and Finance (GUJAF)

Vol. 2 Issue 1, April, 2021 ISSN: 2756-665X

A Publication of
Department of Accounting and Finance,
Faculty of Management and Social Sciences,
Federal University Gusau, Zamfara State -Nigeria

INFLUENCE OF ENVIRONMENTAL ACTIVITIES AS CORPORATE SOCIAL RESPONSIBILITY DIMENSION ON FIRM FINANCIAL PERFORMANCE OF NIGERIAN LISTED FIRMS

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Abstract

Ever since the beginning of companies' activity in Nigeria, the value of corporate social responsibility (CSR) has been an important topic in accounting research. Despite extensive studies on CSR activities in Nigeria, studies to investigate the influence of environmental activities on firm financial performance were limited. The data were obtained through content analysis of published company's annual reports between the year 2014 and 2018. Based market capitalization rate, the study covered the top one hundred companies in Nigeria whose names and shares were quoted in the Nigerian Stock Exchange (NSE). One independent variable (environmental activities) and one dependent variables earning per share (EPS) was chosen and reviewed in this study. Pearson correlation was used to investigate the correlation between environmental activities and firm financial performance. The outcomes of this study revealed that there is a relationship between CSR measures and company's financial performance. The findings of this research suggest that, corporation should actively engage in an effective CSR practice to facilitate a shift from traditional approach to a more classical and transparent approach where social concern are being taking care of in the financial statement.

Keyword: Annual Report, Company's Financial Performance, Corporate Social Responsibility, Nigerian Stock Exchange and Top 100 Nigeria's Companies

1. Introduction

Consequence on business attainment, Halkos & Skouloudis (2018) stated that corporate social responsibility (CSR) has been the growing concern of most academics. Generally, CSR has been identified as a tool to improve company's impact on society and the environment, while gaining essential business results such as brand improvement, market diversity and employee satisfaction which is needed most in every business entities (Maignan & Ferrell, 2005). The issue of corporate social responsibility has invaded most interest of members in the society due to the recent financial crisis that adversely affects Nigerian economy and regarded as a bad experience to business organization around the country (Achumba et al., 2013). This consequence brings setback especially in the area of social progress as people were forced to adjust and live below their means so as to manage with higher cost of living. Hence, immediate remedy actions must be taken by all businesses to ensure the four pillars of sustainable development, that is, 'environmental marketplace, community and economic' are attained.

CSR has an indefinable perception. The paramount argument was rooted from stakeholder and shareholder's theories. The argument advanced by shareholder's perspective was more of a traditional concept. According to shareholder's perspective, the only responsibility of managers is to serve the interests of shareholders in the best possible way, using corporate resources to increase wealth of the latter by seeking profits (Ogden & Watson, 1999). In contrast, the stakeholder's perspective suggests that, besides shareholders, other groups or constituents are affected by a company's activities such as employees, local community or the environment, and

they have to be considered in managers' decisions, possibly equally with shareholders (Hashim et al., 2019).

As it has been received a considerable attention for the past several years, the argumentation on the very concept of CSR, past empirical literature ascertained that there is relationship between CSR and company's financial performance. However, there are some past studies that revealed negativity between CSR and firm financial performance (FFP). This study identified this research gap and it is against this back-drop that this study attempts to investigate the correlation between CSR measures on firm financial performance in Nigerian top one hundred companies.

2. Literature Review

Previous study on the relationship between CSR and firm financial performance

Historically, the empirical literature on the influence of CSR on FFP started over three decades ago in western countries (Isanzu, 2013). Fundamentally, there are two types of empirical studies on the relationship between CSR and firm financial performance. One set used the event study methodology to gauge short-run financial impact (abnormal returns) when firms engage in socially responsible or irresponsible acts. For example, Isanzu, (2013), McWilliams & Siegel (2000) found no relationship between CSR and firm financial performance, while (Aras et al., 2010) reported positive relationship. Wright & Ferris (1997) discovered negative relationship. The results of these studies have been mixed up. The second set of studies examined the relationship between some measures of CSR was aimed at ascertaining long term firm financial performance, using accounting financial measures of profitability. Saleh et al., (2008) found perfect positive relationship. Tsoutsoura (2004) also found positive relationship and this validates the finding of (Waddock & Graves, 1997). Thus, the relationship between CSR and FFP has been empirically examined by past studies which brought dispute on the discussions concerning the positive relationship between CSR and CFP.

Simpson & Kohers (2002) focused on a single industry. Their investigation was an extension of earlier research on the relationship between CSR and CFP. The contribution of their empirical study was based on the analysis of sample obtained from banking industry. In their study, they used Community Reinvestment Act (CRA) ratings as a social performance measure. The results solidly supported the hypothesis that: there is a positive relationship between CSR and FFP. Gardberg & Fombrun (2006) noted that the two forms of potential financial return for the firms deriving from CSR. The returns are: a positive incremental gain as a reward for positive behavior which is called opportunities and mitigation of consequences from negative firms' behaviors or safety nets.

Lyon (2007) observed and compared the relationship between CSR and FFP between two different industries: production industry and service industry. The sample of one hundred and twenty-five firms was obtained from the New Zealand stock exchange. The study used two accounting measures: return on assets (ROA) and return on equity (ROE). The findings revealed that there is positive correlation between CSR variables and firm financial performance in production firms compared to service industry. This confirmed the notion of Fry & Hock (1976) who claimed that the relationship between CSR and firm financial performance may be different among companies.

In an empirical study conducted by Arli & Lasmono (2010) on consumer perception of patrons in Indonesia toward CSR activities, they discovered that consumers are ignorant and unsupportive towards CSR. This finding contradicts the perception of CSR in developed countries where most customers are eager to support products and services with socially responsible businesses. Nevertheless, the finding is interesting as it suggests that, consumers are willing to buy from a firm that has a socially responsible reputation. This also shows that, the perception of CSR in developing countries needs more enforcement and awareness by the regulatory bodies.

Odetayo et al., (2014) conducted an empirical investigation on the influence of corporate social responsibility on profitability of Nigerian banks. Annual reports of six banks were used as sample for the period of 10 years (2003 to 2012). Simple regression analysis was used as statistical method to analyze the data. The findings of the regression results revealed that, there is a significant correlation between amount spent on corporate social responsibility and profitability of Nigerian banks. This also revealed that, Nigerian banks take cognizance of the significance of corporate social responsibility for business sustainable. Another study by Uadiale & Fagbemi (2012) focused on the developing economies, specifically Nigeria. The study used secondary data of forty audited financial statements of quoted companies in Nigeria. The study investigates the impact of CSR activities on FFP financial performance. Furthermore, community performance, environment management system and employee relations were identified as CSR measures, while Return on Equity (ROE) and Return on Assets (ROA) were identified as financial measures. The outcome revealed that, there is positive significant relationship between CSR and financial performance measures. This outcome justified the pass accumulating body of empirical support for the positive impact of CSR on FFP.

In another development, Agburuga (2018) contended that, return on asset (ROA) and return on capital employed (ROCE) correlate positively with employee management and negatively with community development. Moreover, probably firms with higher ROA disclose more CSR activities compared with companies that have higher ROCE. The author concluded that, price of shares in the market have negative relationship with CSR. Large corporations disclose more CSR than smaller one. Furthermore, companies that do not usually pay dividend to its shareholders mostly disclose CSR information than those that pay dividend. Usman & Amran (2015) used content analysis approach of 68 companies whose names and shares are quoted in the Nigerian Stock Exchange (NSE) to determine the influence of corporate social responsibility (CSR) disclosure on firm financial performance among Nigerian listed company. Financial data were cross-referenced with the NSE fact book so as to examine the relationship. Regression analysis equation was used to compute and evaluate firm financial performance and corporate responsibility index. Hierarchical multiple regression analysis was also used to determine the relationship between CSR and FFP. Findings from these empirical results revealed that, listed companies in Nigeria used CSR initiatives to communicate social performance to their stakeholders. Community involvement disclosure, products and customer disclosures and human resource disclosures were found to enhance FFP. The findings also showed that, there is a negative relationship between environmental disclosure and FFP. The findings of this research recommended that, management of Nigerian companies should re-think and re-strategize their CSR policies that incorporate social and economic performance to improve their FFP.

The outcomes of this study, therefore, did not support the findings of some researchers who found no association or negative influence between corporate social responsibility and company's financial performance. This study however, contradicts the assertion of shareholder's model who believed that, the sole objectives of a company is to maximize profit not taking cognizance into social issue. It is sufficed to state that, the previous models or theories of shareholder's approach did not contain appropriately the challenges of the modern market approach.

Moreover, the research findings support the findings of the early studies by looking at corporate social responsibility activities as the main variables that influence company's financial performance in the Nigeria's public listed company. The findings of this study, therefore, is in conformity with the existing models or theories of stakeholder's approach, which suggest that company should incorporate social issues apart from making profit in their decision making so as to boost productivity. This is essential because the new field of CSR has encouraged companies to take the interests of all stakeholders into consideration during decision-making processes instead of making choices solely based upon the interests of shareholders. Social issues could not in whatever way be separated from current market challenges.

The positive correlation between CSR and FFP were upheld and well accepted by many studies. However, the results remained inconclusive Isanzu (2013), Matul (2006), Margolis & Walsh (2003) and (Vogel, 2005). Such inconclusiveness creates ground for further research. Moreover, the trend in developed markets shows that there have been widespread empirical studies on the relationship between CSR and CFP. However, no published studies in Nigerian context that investigate the relationship between environmental activities as CSR measures on firm financial performance in Nigeria's top 100 companies.

3. Methodology

Data collection instrument

This research covers the assessment of top one hundred companies operating in Nigeria. The data rely on published annual reports and account of the top 100 companies from 2014 to 2018. Data on CSR were obtained from companies' published annual report and account for the year ended under other statement and disclosure of CSR activities. Note, only environmental activities as CSR dimension was examined to see the strength of correlation with company's financial performance. The independent variable of corporate social responsibility measures was environmental activities, while dependent variable of financial performance measures was earnings per share (EPS), which was obtained from the published annual report and account for five (5) years. The company's annual report was downloaded from Nigerian stock exchange (NSE) website in 2019

Data Analysis Method

The data were processed and analyzed using statistical package for social science (SPSS 2.0) and Microsoft (Excel 2007). Purposive sampling technique was used based on market capitalization. Such boundary is necessary to keep the investigation within the researcher's financial and time constraints. Pearson correlation was used to determine the strength of correlation between the dependent and independent variables under study.

Each company was assigned to a CSR score of 1 or 0 for 5 years the larger score signified more extensive CSR practice undertaken by the firm. The CSR score of each activity was further subdivided main CSR category which is the main concern of this study, namely: environment. This is based on the total number of CSR activities in the category and this is the contribution of this study on the current methodology adopted by previous researchers as they only looked at the overall relationship between CSR and FFP.

4. Results and Discussion

Table 4.1 below depicts the frequency and the mean value of environmental activities for the year 2014, 2015, 2016, 2017, and 2018 for each sector. Oil and gas sector have the highest frequency of thirty (30) in 2018 and the lowest was twenty-five (25) in 2014 with the minimum and maximum mean value of 0.8065 in 2014 and 0.9677 in 2018. This shows an increment in environmental activities over the year. The lowest and the highest frequency value of financial services was thirteen (13) in 2014 and fourteen (14) for the subsequent years. This indicates a steady increase in environmental activities over the years with the minimum and maximum mean value of 0.8667 in 2014 and 0.9333 respectively.

In the consumer goods company, the highest frequency value of environmental activities was thirteen (13) in 2014, 2016, 2017, and 2018 and the lowest was twelve (12) in 2015. This shows a decrease in value compare to 2014 in which the minimum and maximum mean value was 0.9231 in 2015 and 1.0000 in 2018. Telecommunication industries have the highest frequency value of thirteen (13) in 2018 and the lowest of ten (10) in 2014. This shows an increase in environmental activities over the years with the minimum and maximum mean value of 0.7692 in 2014 and 1.0000 in 2018.

Construction companies have the highest frequency value of environmental activities of nine (9) in 2018 and the lowest was seven (7) in 2014. This indicates a little bit of increase over the years, with the minimum and maximum of mean value of 0.7000 in 2009 and 0.9000 in 2018. Industrial goods companies have the highest and the lowest frequency value of eight (8) in 2018 and four (4) in 2014. This signifies an increase in environmental activities over the years as it has the minimum and maximum mean value of 0.5000 in 2009 and 2015 and 1.000 in 2018.

In the healthcare sector, the highest frequency value of environmental activities was three (3) in 2017 and the lowest was zero (0) in 2014. This indicates an increase in value over the years except for 2018 where the frequency value was two (2). This shows a decrease in value compare to 2017 as it has the minimum and maximum mean value of 0.0000 in 2014 and 0.7500 in 2017. Agricultural companies have the highest and the lowest frequency value of environmental activities of two (2) throughout the five year. This shows a steady increase over the years as it has the minimum and maximum mean value of 0.6667 in 2014 and 0.6667 in 2018 as well.

Service companies have the highest and lowest frequency value of environmental activities of two (2) throughout the five years. This shows a steady increase over the years as it has the minimum and maximum mean value of 1.0000 in 2014 and 1.000 in 2018. Utility has the highest and the lowest frequency value of environmental activities of one (1) throughout the five years. This shows a steady increase over the years as it has the minimum and maximum mean value of 1.0000 in 2014 and 1.0000 in 2018.

Table 4.1 Environmental activities according to sector

Sector	Frequency					Mean				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
Oil and Gas	25	24	27	30	30	0.8065	0.7742	0.8710	0.9677	0.9677
Financial Services	13	14	14	14	14	0.8667	0.9333	0.9333	0.9333	0.9333
Consumer Goods	13	12	13	13	13	1.000	0.9231	1.0000	1.0000	1.0000
Telecommunication	10	11	11	12	13	0.7692	0.8462	0.8462	0.9231	1.0000
Construction	7	8	8	8	9	0.7000	0.8000	0.8000	0.8000	0.9000
Industrial Goods	4	4	5	6	8	0.5000	0.5000	0.6250	0.7500	1.0000
Healthcare	0	1	2	3	2	0.0000	0.2500	0.5000	0.7500	0.5000
Agriculture	2	2	2	2	2	0.6667	0.6667	0.6667	0.6667	0.6667
Services	2	2	2	2	2	1.0000	1.0000	1.0000	1.0000	1.0000
Utility	1	1	1	1	1	1.0000	1.0000	1.0000	1.0000	1.0000
Total	77	79	85	91	94					

The findings on table 4.1 above revealed the willingness of companies in Nigeria in incorporating environmental CSR activities into daily business operation. It also revealed that the overall corporate social responsibility activities in the area of environmental activities keep on rising throughout the five years. For example, it raised from 77 in 2014 to 94 in 2018. This indicates the readiness of the companies to participate fully in environmental activities which relates to company's efforts to protect and preserve the natural resources and environment. This is evident, for instance, in the areas of the use of renewable energy, reduction of water and air pollution, reduction of used hazardous chemicals, reduction of effluence and waste generation, monitor energy usage, monitoring and reduction of greenhouse gas and other emissions and maintained biodiversity.

Tested hypothesis on the relationship between Environmental activities and firm financial performance

Financial measure variable	CSR variable	2014		2015		2016		2017		2018	
		R	Sig.	R	Sig.	R	Sig.	R	Sig.	R	Sig.

Earnings per share	Environmental activities	0.101	0.316	0.230*	0.021	0.112	0.268	0.067	0.507	0.093	0.355
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*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.2 depict the Pearson's correlation matrix of environmental activities and firm financial performance which were conducted between 2014 to 2018 to determine the strength of correlation between environmental activities and firm financial performance which report mixed result. There is positive correlation between the two variables in 2014, 2015, and 2016 for EPS where r is = .101, .230*, and .112, while the correlation is weak in 2017 and 2018 for EPS where r is = .067, and .093 $n = 100$ with $p = .021 < 0.05$ in 2015 and .316, .268, .507, and .355 $p > 0.05$ in 2014, 2016, 2017 and 2018, with high levels of environmental activities associated with high levels of EPS. Based on the strength of correlation co-efficient between the independent variable (i.e. environmental) and dependent variables (i.e. EPS and ROE) the null hypothesis (H_0) is rejected and therefore, accept the alternative hypothesis (H_a) and concluded that environmental activities correlate positively with firm financial performance.

Table 4.2: The relationship between environmental activities and firm financial performance

This study validates the notion of Freeman (1984) who confirmed that an entity would never maximize profit without honoring ethical values as well as respect to the environment, and communities and to whom the company derived its resources and operate. In fact, this explained not only how profit were generated but also how they were disbursed bearing in mind the concern of the environment (Carroll & Buchholtz, 2014). However, disagreeing with the notion of Friedman (1970) who stated that the sole objective and responsibility of business is to generate profit and the business of business is business (single bottom line). This shows an extreme view that the only responsibility of a business entity is to maximize profit for its shareholders.

Generally, the findings of this study corroborate with the work of Lyon (2007) who observed and compared the relationship between CSR and FFP between two different industries. The samples of one hundred and twenty-five firms were obtained for the study from the New Zealand stock exchange. The study used two accounting measures; return on assets (ROA) and return on equity (ROE). The findings revealed that there is positive correlation between CSR variables and firm financial performance in production firms than in service industry. Also, the finding of this study validates the work of Yang et al., (2019) who examined the data of 125 Chinese Pharmaceuticals between 2010–2016 to investigate the impact of overall corporate social responsibility (CSR) performance as well as the performance on five unique aspects of CSR such as shareholders, employees, customers and suppliers, environmental practices, and the society to gauge the impact of these individual dimensions on the firm's financial performance. The firm financial performance was measured by Tobin's Q, return on assets (ROA), return on equity (ROE), and earnings per share (EPS) ratios. The outcome of the panel-based regression models reveals that the overall CSR score has a positive and significant influence on a firm's financial indicators this shows all the CSR dimensions relate positively to firm financial performance, However, the finding of this study refutes the work of McWilliams & Siegel (2000) and Isanzu (2013) who upheld that, there is no any relationship between CSR activities and firm financial performance.

5. Conclusion

It is worthy to mention that CSR practice and its influence on companies' financial performance promote accountability and transparency not only to shareholders of the company but also to stakeholders through well designed corporate reporting practice that aid in improving company's image and profitability. It is essential to know that the recent Nigeria financial crises ignited the rise and development of corporate social responsibility practice in the framework of public listed company in Nigeria as it retrieve shareholder's confidence. Furthermore, the extent to which firms take on the practice of CSR around the world explained why companies in Nigeria adhere to the code of best practice on corporate social responsibility.

The findings of this study support vast number of previous studies on the relationship between corporate social responsibility and company's financial performance. The study concluded that adherence with CSR best practice would lead to a high company performance particularly if the company has effectively and efficiently implemented its CSR activities more especially in the area of environmental activities in form not in partial.

Moreover, the findings of this study indicate that the proportion of CSR activities kept on rising over the years showing increase in environmental activities over the years. The result also uncovered that environmental activities ranked as the most influential determinants of firm financial performance in Nigeria public listed companies showing positive correlation with firm financial performance variable.

The findings of this study should be interpreted with care because the study is purely based on the top one hundred companies in Nigeria. It is equally essential to make it clear that this study used EPS as accounting based measures where the independent and dependent variables relate to each other. Thus, all the hypotheses tested in the study were supported and accepted. Conclusively, there is positive correlation between CSR and FFP variables.

Recommendations

The concept of CSR observed thoroughly about who really own business organization and the attitude of society within which company operate. Further studies on CSR are needed to validate this assumption, specifically by using either qualitative or mixed method. The findings of this research projected that for every business organization to be successful in Nigeria; it should be effectively and efficiently incorporate social activities into strategic business operation. It will be a great advantage for the company who has the ability to identify social issues and satisfied them systematically.

Additionally, more research of this kind should be conduct on medium and small scale industries since studies shows that they constitute almost 90% of the total industry in Nigeria. Further research should also go beyond the relationship between CSR and CFP there is a need to investigate the actual amount allocated to CSR activities by each company and its impact on companies' financial performance and also to make in-depth investigation between local and foreign companies' CSR practice in Nigeria. The comparative analysis between local and foreign companies in Nigeria was not fully explored. Conclusively, due to the importance of accountability and transparency the outcomes of this research recommend the adoption of CSR initiatives.

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