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John Karori Nyamiobo and Dr. Headmound Okari Isoe

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The Moderating Influence of CSR in the Relationship Between Financial Leverage and Performance of Listed Companies at the Nairobi Securities Exchange (NSE)

[1]John Karori Nyamiobo and [2]Dr. Headmound Okari Isoe

[1]PHD Candidate Jomo Kenyatta University of Agriculture and Technology (JKUAT), Nairobi, Kenya.
Email: jknyamiobo@yahoo.com
[2]Technical University of Kenya (TUK), Nairobi, Kenya. School of Business and Management Studies.
Email: headmound@gmail.com

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This study examined the moderating effect of Corporate Social Responsibility on the relationship between financial leverage and Performance of listed firms at the Nairobi Securities Exchange (NSE). The research was designed to use quantitative research method utilizing data collected from companies listed at the NSE. Questionnaires were used to collect primary data from finance officers of companies listed at NSE. The data collected was analysed by use of descriptive and inferential statistics. The study carried out the analysis of the data with the help of statistical packages including SPSS and MS-Excel. To achieve its aim, the study employed multiple linear regression analysis to observe the relationship between the independent variable (financial leverage) and the dependent variable (financial performance) and moderated by Corporate Social Responsibility. A correlation and regression analysis was carried out to determine the relationship between financial leverage and financial performance of companies listed at the NSE as well as the moderating variable (Corporate Social Responsibility). The study established that Corporate Social Responsibility has a positive moderating influence on the relationship between Independent Variable and the Dependent Variable. From the findings, the study concluded that, there is a moderating effect of corporate social responsibility in the relationship between financial leverage and performance of listed firms in Kenya. Based on this finding, the study recommends that policy makers and other stakeholders in the institutions under study implement corporate social responsibility programs as they were found to have a positive effect on the performance of listed firms in Kenya.

Key Terms: Corporate Social Responsibility, financial leverage, organisational performance

INTRODUCTION

More than ever before, there is unprecedented interest in the debate on the strategic significance of CSR activities. Shareholders of listed companies are increasingly becoming concerned about financial performance of firms considering increased competition in the capital markets of the world caused by the globalisation phenomena. This has led to declining returns on investment as capital can freely move globally. According to Ocloo et al. (2014), shareholders expect returns on their investment while creditors are keen to have their resources repaid as scheduled, workers are keen to work in stable firms, government's interest is to have firms making profits so that they can pay taxes to finance its operations. With these myriad expectations from different parties, one wonders if it does make business sense for organisation to invest resources in corporate social responsibility

(CSR) activities. Studies on the relationship between CSR and Financial performance of firms have emerged with different conclusions: some indicating positive relationship: others, showing negative relationships while others show no relationship between the two variables. Further scanty literature is available on the influence of corporate social responsibility on determinants of financial performance of listed companies especially those in the NSE

Statement of the Problem

Performance of companies is a subject that has attracted much attention and interest from investors, investment experts, financial experts, researchers, the general public as well as the management of corporate entities. This is due to the imperative that businesses have a responsibility to create value for shareholders, while simultaneously meeting their social responsibility obligations (Jooh*et al.*, 2010). The idea of engaging beyond legal requirements is ethically desirable even though it appears to take away current resources from the firm's immediate needs (Jooh *et al.*, 2010). The relationship between corporate social responsibility and firm performance has been a subject for many extensive studies in the last decade (Buiten, 2012).

In recent years, scholars, financial analysts and managers have devoted great attention to strategic implications of corporate social responsibility (CSR). Corporate social responsibility has become an integral part of business practices over the recent years. Many firms dedicate sections of their annual reports to CSR activities. The question is, do such activities create value for the firms' owners or do they focus too much on other stakeholders, and therefore lowering the value of the firm? While financial leverage has been said to have a direct influence on performance of listed companies, the role of CSR in this relationship is still a major subject of discussion among business and governance experts. The study there for sought to find out if corporate social responsibility has a moderating effect in the relationship between financial leverage and performance of firms quoted at the Nairobi Securities Exchange.

Theoretical and Empirical Literature

The primary motive of a company in using financial leverage is to magnify the shareholders' return under favorable economic conditions. The role of financial leverage in magnifying the return of the shareholders' is based on the assumptions that the fixed- charges funds such as the loan from financial institutions and other sources or debentures can be obtained at a cost lower than the firm's rate of return on net assets (RONA or ROI). According to Damouri *et al.* (2013) leverage ratios contribute to measuring the risk of using equity costs. Financial leverage affects profit after tax or earnings per share. The combined effect of two leverages can be quite significant for the earnings available to ordinary shareholders.

Financial leverage is measured by the ratio of total debt to equity (debt/equity ratio). It shows the extent to which a firm is utilizing borrowed money. Generally, companies that are highly leveraged may face the risk of bankruptcy if they are not able to make payments on their debt; consequently they may be unable to find new lenders. However, leverage is not always bad as it can increase the shareholders' return on their investment and make good use of the tax advantages often associated with borrowing. Generally, companies that are highly leveraged may face the risk of bankruptcy if they are not able to make payments on their debt; consequently they may be unable to find new lenders.

Empirical literature on the relationship between leverage and financial performance have come up with mixed conclusions. Studies done by Mwangi*et al.* (2014) and Dogan (2013) conclude that there is a negative relationship between leverage and profitability. Other researchers, Velnampy and Anojan (2014) conclude that there is no significant impact of leverage on profitability. Further, there have been divergent opinions on CSR as to whether acting in an ethical and socially responsible manner adds any economic value to a firm. According to Friedman (1982), the primary objective of the firm management should be to maximize shareholder wealth. Other opinions are to the contrary opinion arguing that companies should try to be socially responsible, and gain support for their activities from stakeholders. Thus, managers should maximize the well-being of stakeholders in general. Some argue that in order to maximize profits, CSR may be a path to it (Clarkson, 1995; Donaldson and Preston, 1995;Agle and Wood, 1997).

Empirical study results on CSR and CFP link have never been in agreement. Some studies have determined positive correlation, some negative correlation while others have determined no correlations at all. The support for positive correlation between CSR and CFP suggests that as company's explicit costs are opposite of hidden costs of stakeholders, therefore this viewpoint is proposed from the perspective of avoiding cost to major stakeholders considering their satisfaction (Cornel and Shapiro, 1987). Additionally, this theory infers that commitment to CSR would result in increased cost to competitiveness and reduce hidden costs of stakeholders. This argument has merit as good relationship with employees, suppliers, supplier, and customers are critical for the survival of the company. A study by Waddock and Graves (1997) found a significant positive relation between CSP index and performance measure as ROA. Short term studies based on abnormal return measure (Posnikoff, 1997) and market actions (Moskowitz, 1972) showed a positive relation between performance and CSR.On the negative relation, Waddock and Graves (1977) assumed that companies with responsible behaviour may have a competitive disadvantage, since they incur unnecessary costs. These costs fall directly on the bottom line and would necessarily reduce shareholder profits and wealth (Preston and O'Bannon, 1997). CSP and CFP postulates that the fulfilment of CSR will bring competitive disadvantage to the firm (Aupperle*et al.*, 1985) methods or need to bear costs. According to this view, when carrying out CSR activities, increased costs will result in little gain if measured in economic interest. Neglecting some stakeholders like employees or the environment will lead to a lower CSP for the firm. Hence, Waddock and Graves (1977) indicated that this theory was based on the assumption of negative correlation between CSP and CFP.

RESEARCH METHODOLOGY

The study adopted a correlational survey design which targeted all firms in Nairobi Securities Exchange.A sample of 237 respondents was used for the study. Primary data was collected using questionnaires. The study managed to collect 193 questionnaires out of which 186 were duly filled. However, after cleaning for outliers the research remained with 172 questionnaires, which represented a response rate of 72.6% of the sampled 237 respondents. The researchers employed multiple linear regression analysis to observe the relationship between the dependent variable (financial performance) of listed companies at NSE and the independent variable (financial leverage) moderated by Corporate Social Responsibility. The data collected was analysed by use of descriptive and inferential statistics. The study carried out the analysis of data with the help of statistical packages including SPSS and MS-Excel. A correlation and regression analysis was carried out to determine the relationship between financial leverage and financial performance of companies listed at the NSE. Further, the study employed multiple linear regression analysis to observe the relationship between the independent variable (financial leverage) and the dependent variable (financial performance) and moderated by Corporate Social Responsibility.

RESULTS AND DISCUSSION

Factor analysis

The study carried out factor analysis of all the variables taking into account the recommendations by Leech et al. (2014) that variable items should be retained if they are consistent with the theoretical labels and have factor loadings greater than or equal to 0.4.

Factor Analysis on the Moderating Variable

A factor analysis on the moderating variable (Corporate Social Responsibility) was carried out and the findings were summarized in table 1. From the table none of the factors scored below the threshold of 0.4 and therefore none was dropped from the analysis.

Factors Analysis on Leverage

The findings in table 2 show that all the factors loaded highly as all of them had scores above the threshold of 0.4.

Factor Analysis on Firm's Financial Performance

The findings in table 3 show that all the factors loaded highly on Firm Performance as all of them had scores above the threshold of 0.4.

Checking for Assumptions of Linear Regression

According to Montgomery et al. (2015), before carrying out linear regression analysis, it is important to check if the data can actually be analysed using linear regression. Failure to check for the assumptions of linear regression analysis may end up giving spurious results (Seberand Lee, 2012). Therefore, assumptions of linear regression analysis were checked and confirmed.

Normality Check for Dependent Variable (Firm Performance)

Ghasemi and Zahediasl (2012) poised that a test of normality is done by inspecting the output of the normal Q-Q plot for the dependent variable. A normality check was done by generating a Normal Q-Q plot from the data of the dependent variable (Firm Performance) using the SPSS software. From the findings, the scatter dots fell within the line of best fit as shown in figure 1, and this led to conclusion that the dependent variable was normally distributed.

Linearity between Leverage and Firm Performance

A curve estimation was done to ascertian if Leverage and Firm Performance had any linear relationship between them. From the findings summarised in figure 2, there is a strong positive linear relationship between Leverage and Firm Performance.

Descriptive Statistics for CSR

The descriptive statistics for CSR was generated from SPSS data and the findings were summarised in table 4. From the table, 43.0% agreed that their organization has a written policy covering respect for human rights, occupational health and safety, labour rights, environmental and anti-corruption issues. A majority

Table 1: Factor Analysis of Corporate Social Responsibility

Component Matrix[a]	
	Component
The organization donates time, in-kind or financial contributions to the local community e.g. education and training, cultural and infrastructure development.	.820
The organization has documented procedures to enable decisions to be made regarding issues covered by the Global Compact principles	.820
The organization can demonstrate the impacts of its contribution and how these are aligned to the organization's core and strategic issues.	.802
The organization takes action to realise local and/or national development goals following consultations with the local community.	.795
The organization's policy includes a commitment to meeting local legal requirements and international standards.	.791
The organization take action in support of broader UN goals and issues, such as the UN Millennium Development Goals (MDGs) on combatting HIV, promoting education and women's rights.	.776
The organization has defined and communicated roles and responsibilities with regard to issues covered by the Global Compact principles.	.746
The organization has a written policy covering respect for human rights, occupational health and safety, labour rights, environmental and anti-corruption issues.	.720
The organization has appointed a senior person(s) responsible for policies and plans related to issues covered by the Global Compact principles.	.689
The organization seeks to contribute to community development by entering partnerships with a range of stakeholders, including UN agencies, governments, civil society, labour, and other non-business interests.	.644
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

Table 1: Factors Analysis on Leverage

Component Matrix[a]	
	Component
Increasing external share ownership decreases the magnitude of the leverage-investment relationship	.835
The magnitude of the overinvestment problem differs from the magnitude of the underinvestment problem	.810
Providers of external capital recognize the potential of our investment	.806
We scale investments projects with a different risk in a different category	.794
To a large extent increasing cost of external capital limits investment	.786
In the presence of low growth opportunities increasing managerial share ownership increases the magnitude of the leverage-investment relationship	.770
In the presence of low growth opportunities the relationship between leverage and debt is negative	.761
The company’s current bank is flexible when financing is need in financial distressed times	.755
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

(45.3%) agreed that their organization's policy includes a commitment to meeting local legal requirements and international standards, 44.8% agreed that their organization has appointed a senior person(s) responsible for policies and plans related to issues covered by the Global Compact principles, 41.9% agreed

Table 3: Factor Analysis on Firm's Financial Performance

Component Matrix[a]	
	Component
Net Profit	.823
Operating margin	.805
Return on Equity	.803
Average revenue	.798
Asset Base	.736
Return on capital employed	.705
Gross Profit Margin	.689
Return on Assets	.564
Extraction Method: Principal Component Analysis.	
a. 1 components extracted.	

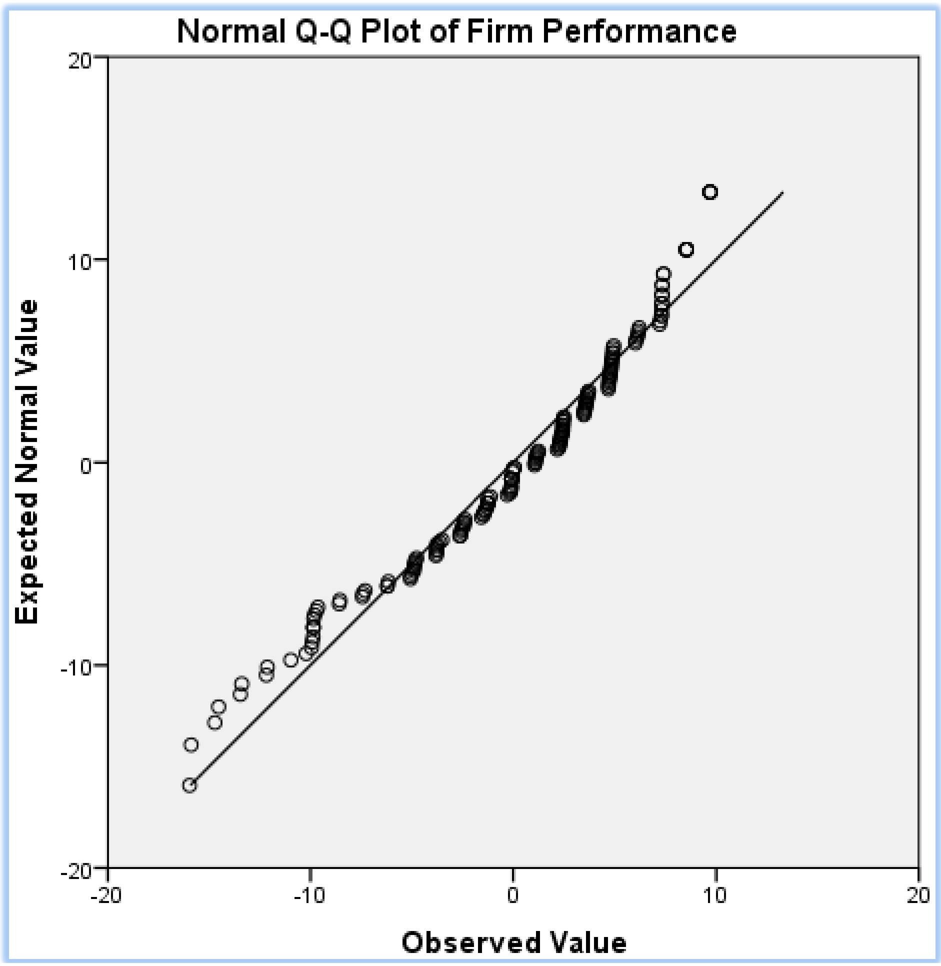

Figure 1: Normal Q-Q Plot of the Dependent Variable (Firm Performance)

that their organization has defined and communicated roles and responsibilities with regard to issues covered by the Global Compact principles, 39.5% agreed that their organization has documented procedures to enable

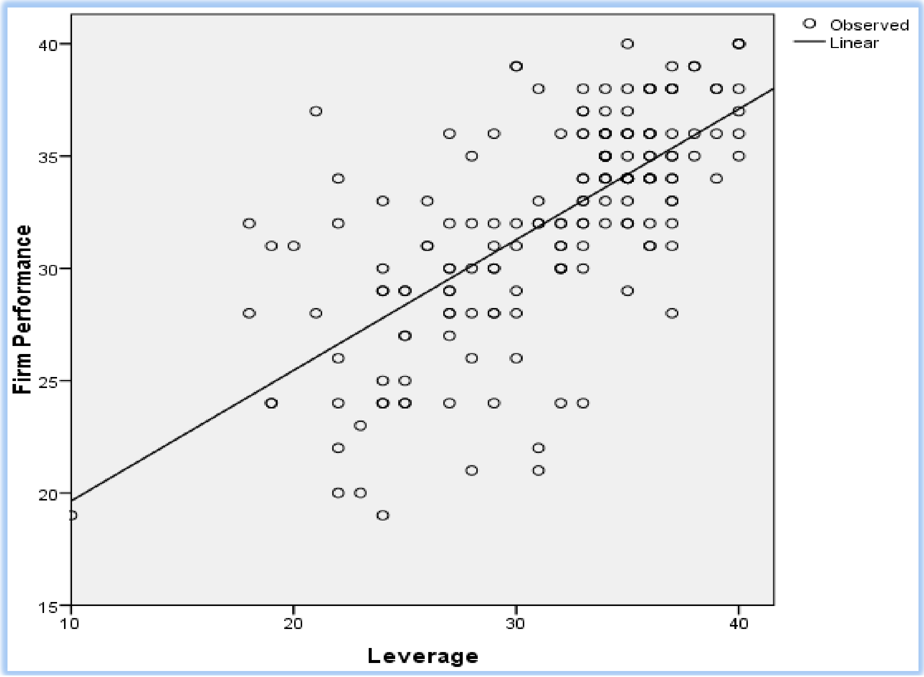

Figure 2: Curve estimation between Firm Performance and Leverage

Table 4: Descriptive Statistic for CSR

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The organization has a written policy covering respect for human rights, occupational health and safety, labour rights, environmental and anti-corruption issues.	1.2%	7.0%	25.6%	43.0%	23.3%
The organization's policy includes a commitment to meeting local legal requirements and international standards.	0.0%	7.6%	26.7%	45.3%	20.3%
The organization has appointed a senior person(s) responsible for policies and plans related to issues covered by the Global Compact principles.	1.7%	5.2%	22.1%	44.8%	26.2%
The organization has defined and communicated roles and responsibilities with regard to issues covered by the Global Compact principles.	3.5%	15.7%	20.9%	41.9%	18.0%
The organization has documented procedures to enable decisions to be made regarding issues covered by the Global Compact principles	2.9%	7.6%	24.4%	39.5%	25.6%
The organization donates time, in-kind or financial contributions to the local community e.g. education and training, cultural and infrastructure development.	1.7%	8.7%	22.1%	43.0%	24.4%
The organization takes action to realize local and/or national development goals following consultations with the local community.	2.3%	7.6%	19.8%	41.3%	29.1%
The organization can demonstrate the impacts of its contribution and how these are aligned to the organization's core and strategic issues.	2.3%	6.4%	19.2%	45.3%	26.7%
The organization take action in support of broader UN goals and issues, such as the UN Millennium Development Goals (MDGs) on combatting HIV, promoting education and women's rights.	2.3%	7.6%	25.0%	45.9%	19.2%
The organization seeks to contribute to community development by entering partnerships with a range of stakeholders, including UN agencies, governments, civil society, labour, and other non-business interests.	1.7%	8.1%	22.1%	41.9%	26.2%

Table 5: Descriptive Statistics for Leverage

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The company's current bank is flexible when financing is needed in financial distressed times	1.2%	3.5%	20.9%	47.1%	27.3%
To a large extent increasing cost of external capital limits investment	0.6%	5.8%	22.1%	48.8%	22.7%
In the presence of low growth opportunities increasing managerial share ownership increases the magnitude of the leverage-investment relationship	0.6%	5.2%	23.3%	42.4%	28.5%
Providers of external capital recognize the potential of our investment	1.7%	7.0%	21.5%	41.3%	28.5%
We scale investments projects with a different risk in a different category	1.2%	3.5%	22.7%	41.3%	31.4%
Increasing external share ownership decreases the magnitude of the leverage-investment relationship	1.2%	4.1%	16.9%	42.4%	35.5%
In the presence of low growth opportunities the relationship between leverage and debt is negative	2.9%	5.8%	22.7%	50.6%	18.0%
The magnitude of the overinvestment problem differs from the magnitude of the underinvestment problem	1.2%	5.8%	23.8%	41.3%	27.9%

decisions to be made regarding issues covered by the Global Compact principles, while 43.0% agreed that their organization donates time, in-kind or financial contributions to the local community e.g. education and training, cultural and infrastructure development. A 41.3% majority agreed that their organization takes action to realize local and/or national development goals following consultations with the local community, 45.3% agreed that their organization can demonstrate the impacts of its contribution and how these are aligned to the organization's core and strategic issues, 45.9% agreed that their organization takes action in support of broader UN goals and issues, such as the UN Millennium Development Goals (MDGs) on combatting HIV, promoting education and women's rights, while a majority (41.9%) agreed that their organization seeks to contribute to community development by entering into partnerships with a range of stakeholders, including UN agencies, governments, civil society, labour, and other non-business interests.

These findings are in line with Toms (2002) suggestions that firm's implementation, monitoring and disclosure of environmental policies in the annual reports make a significant contribution in the formation of good environmental reputation in the company. In a similar study, Hasseldine et al. (2005) tested the effect of both qualitative and quantitative disclosure on the company's reputation, their study revealed that quality of environmental disclosures have a stronger influence on the creation of good environmental reputation more than merely quantitative disclosure. Another study by Rettab, Brik and Mellahi (2009) examined the relationship between corporate social responsibility and reputation of the company; they found a positive relationship between the two variables.

Descriptive statistics for leverage

The researcher generated a table for the Leverage from SPSS data and the findings were summarised in table 5. From the table, 47.1% agreed that their company's current bank is flexible when financing is needed in financial distressed times, 48.8% agreed that to a large extent increasing cost of external capital limits investment, 42.4% agreed that in the presence of low growth opportunities increasing managerial share ownership increases the magnitude of the leverage-investment relationship, 41.3% agreed that providers of external capital recognize the potential of their investment, 41.3% agreed that they can scale investments projects with a different risk in a different category, 42.4% agreed that increasing external share ownership decreases the magnitude of the leverage-investment relationship,50.6% majority agreed that in the presence of low growth opportunities the relationship between leverage and debt is negative, while 41.3% agreed that the magnitude of the overinvestment problem differs from the magnitude of the underinvestment problem in their company

Descriptive statistics for firm's financial performance

The researcher sought to find the descriptive statistics of Firm's Financial Performance. The findings were summarized in table 6. From the table, 48.8% said their Asset Base was good, 48.3% rated their Gross Profit Margin as good, 44.8% said their Return on Assets was good, 48.3% rated their average revenue as good, 48.8%

Table 6: Descriptive statistics for Financial Performance

	Poor	Fair	Average	Good	Very Good
Asset Base	0.6%	1.2%	19.2%	48.8%	30.2%
Gross Profit Margin	0.6%	4.1%	14.0%	48.3%	33.1%
Return on Assets	1.7%	7.6%	34.3%	44.8%	11.6%
Average revenue	0.0%	4.7%	20.9%	48.3%	26.2%
Operating margin	0.0%	5.2%	16.9%	48.8%	29.1%
Return on Equity	0.0%	2.3%	18.6%	49.4%	29.7%
Return on capital employed	0.6%	4.7%	14.0%	38.4%	42.4%
Net Profit	0.0%	5.2%	14.5%	44.8%	35.5%

Table 7: Model Summary table of Firm Performance and Leverage moderated by CSR Information

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.679[a]	.460	.457	3.575
2	.710[b]	.504	.498	3.438
a. Predictors: (Constant), Leverage				
b. Predictors: (Constant), Leverage, CSR Information				

Table 8: Anova Table of Firm Performance and Leverage moderated by CSR Information

ANOVA[a]						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	1854.121	1	1854.121	145.093	.000[b]
	Residual	2172.408	170	12.779		
	Total	4026.529	171			
2	Regression	2028.806	2	1014.403	85.815	.000[c]
	Residual	1997.723	169	11.821		
	Total	4026.529	171			
a. Dependent Variable: Firm Performance						
b. Predictors: (Constant), Leverage						
c. Predictors: (Constant), Leverage, CSR Information						

rated their company's operating marginas good, 49.4% rated their company's Return on Equity as good, 38.4% ratedreturn on capital employedin their company as good, while a 44.8% majority said Net Profitwas good.

Moderating influence of CSR on the relationship between Firm Performance and Leverage

Regression analysis between the dependent variable (Firm Performance) and Leverage (Table 7) revealed that R^2 of the first model was .460 implying that 46.0% of the total variability in the dependent variable (Firm Performance) could be explained by Leverage. However, after introduction of CSR Information in the second model, R^2 changes significantly to .504. This means that with CSR Information included, leverage could explain 50.4% of the total variability in the dependent variable (Firm Performance).

The anova table 8 shows that CSR Information had a p-value of .000 meaning that it was statistically significant as p-value was less than .05 threshold. This led to rejectingthe null hypothesis that there is no significant moderating influence of CSR Information on the relationship between leverage and financial performanceof listed firms in Nairobi Securities Exchange.

From the Coefficients table 9, Leverage contributes a positive value of .582 that is statistically significant. This means that for every unit change in the dependent variable (Firm Performance), leverage (X_1) contributes a positive value of .582, hence the model $Y = 13.825 + .582X_1$. After introduction of CSR Information which contributes .237 units for every unit increase in the variability of Firm Performance, the model changes to $Y = 12.613 + .334X_1 + .237X_5$. CSR Information has a p-value less than .05 meaning that it has a statistically significant moderating influence on the relationship between Firm Performance and Leverage.

Table 9: Coefficients Table for Returns on Assets and Leverage moderated by CSR Information

Coefficients[a]						
Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	13.825	1.538		8.991	.000
	Leverage	.582	.048	.679	12.045	.000
2	(Constant)	12.613	1.512		8.341	.000
	Leverage	.334	.080	.389	4.197	.000
	CSR Information	.237	.062	.357	3.844	.000
a. Dependent Variable: Firm Performance						

CONCLUSION AND RECOMMENDATION

The study sought to establish the moderating effects of corporate social responsibility on the relationship between financial leverage and performance of listed firms in Nairobi Securities Exchange. A regression analysis was carried out to determine the influence that Corporate Social Responsibility had on the relationship between the Independent Variables and the Dependent Variable. From the findings on the influence that Corporate Social Responsibility had on the relationship between the Independent Variables (Leverage) and the Dependent Variable (financial performance), Corporate Social Responsibility had a positive moderating influence on the relationship between Independent Variables and the Dependent as R Squared positively changed in value in model 2 compared to model 1. The Anova results showed that the moderating role of Corporate Social Responsibility was statistically significant as p-value was less than the 5% cut-off point. In addition, the null hypothesis that, there is no significant moderating effect of corporate social responsibility on the relationship between financial leverage and performance of listed firms in Nairobi Securities Exchange was rejected and the alternative hypothesis was accepted. Therefore, the study concluded that corporate social responsibility has a positive moderating effect on performance of listed firms in Nairobi Securities Exchange. This finding aligns with that of Waddock and Graves (1997) who also found a significant positive relationship between CSP index and performance. Further, Joshi *et al.* (2007) is his study also concluded that there is a positive relationship between profit making and social responsibility.

The main objective of this study was to establish the moderating effect of corporate social responsibility on financial leverage as one of the determinants of financial performance of listed firms in Kenya. The findings revealed that, there is a positive moderating effect of corporate social responsibility in the relationship between financial leverage and performance of listed firms in NSE. Based on this findings, the study recommends that policy makers and other stakeholders in the institutions under study adopt and implement corporate social responsibility as it was found to have a positive effect on financial performance of listed firms in Kenya.

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