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The mediating role of corporate governance and corporate image on the CSR-FP link: Evidence from a developing country

This study advances research on CSR through investigating the CSR-firm financial performance (FP) link. It develops a model based on legitimacy and institutional theories and considers two important intervening variables – corporate governance and corporate image. The CSR practices are supposed to affect the corporate governance codes and principles in different contexts, especially in developing countries. Empirical results, based on a sample of 155 firms in a developing country, support the link between CSR and FP; however, the effect is indirect while corporate governance and corporate image fully mediate this link. The findings indicate that the CSR engagements help better governance practice and improve corporate image through establishing good internal controls and monitoring that ultimately enhance financial performance. The implications are valuable for academics, managers, and policy makers who are interested to measure the impact of intervening variables on the CSR-FP relationship.

Introduction

Research on corporate social responsibility (CSR) has gained significant momentum as stakeholders are demanding more accountability for organisation's activities. Both internal and external stakeholders, such as media, civil society, regulatory authorities, suppliers and employees stress the benefits of CSR practices which eventually motivate organisations to adopt social and environmentally friendly business practices. There is a significant body of research that investigates the relationship between corporate social responsibility (CSR) and firm financial performance (FP), however, the findings are inconclusive (Chen and Wang 2011; Jacobs et al. 2010; Mahoney and Roberts 2007) with several studies showing positive links and others reporting negative relations (Goyal et al. 2013; Lu et al. 2014) while others show no relationship (McWilliams and Siegel 2000; Cowen et al. 1987). To date, few studies have investigated such relationships between CSR and FP more elaborately to comprehend the effects of mediating variables. This is also supported by the work of Galbreath and Shum (2012) as they argue that different intervening variables have not been fully explored to see the effects of mediating variables on the CSR and FP relationship.

CSR has a significant effect on organisation's governance practices (Jamali et al. 2008), which eventually enhances the financial performance of the organisation. CSR and corporate image (CI) have been extensively investigated by scholars and positive relations between them have been found (Hammond and Slocum 1996; Bebbington et al. 2008). CSR, corporate governance (CG), and CI, have gained much attention in different research areas, however typically in isolation. Less focus has been given to assess the underlying process of performance improvement through their combined effect. This study attempts to fill this gap and seeks to further distil the CSR-FP relationship through examining the mediating effects of CG and CI on that relationship.

The objective of this study is to investigate the mediating role of corporate governance (CG) and corporate image (CI) on the relationship between corporate social responsibility (CSR) and financial performance (FP). Many prior studies have indicated that CSR practices are growing in developing countries as a result of pressures from external stakeholders. (Belal 2001; Kamal and Deegan 2013). Most of the previous studies in CSR from developing countries are mainly based on content analysis of secondary annual reports with a few exceptions (see Islam and Deegan, 2008; Belal and Owen, 2007). These studies largely ignored the possibility that some other important intervening variables, such as corporate governance and corporate image may mediate the relationship between CSR and FP. This study aims to fill this gap by incorporating a number of mediating variables and test the basic relationship between CSR and FP.

This study contributes to the existing CSR literature in the following ways. First, CSR is found to have a positive effect on corporate governance and corporate image which ultimately enhances the firm's financial performance. Second, developing countries such as Bangladesh provide a useful opportunity to explore this relationship from a developing country context. The majority of studies have considered the CSR-FP link and the role of mediating variables from a developed country perspective. Third, corporate governance codes and principles have recently been introduced in Bangladesh. The results indicate that CSR engagement helps in better governance practice through establishing good internal controls and monitoring that ultimately enhances a firm's financial performance. Lastly, the findings are important for policymakers and executives in developing countries who are considering the adoption of CSR for improving their firm performance.

Theoretical Background

Definitions of CSR vary, however, most tend to refer in some way to CSR integrating organisations' social and environmental concerns in their business operations to satisfy broader stakeholder groups (European Commission 2002; Carroll 1999). Aguinis (2011) defines CSR as "context-specific organisational actions and policies that take into account stakeholders' expectations and the triple bottom line of economic, social, and environmental performance". Many previous studies explored different constructs of CSR from different perspectives and many of them emphasize how CSR create value to stakeholders (Husted and Allen 2007; Galbreath 2010) in different institutional and organisational contexts.

Institutional theory relies on social expectations which regulate the organisational CSR practice as part of their socially responsible activities (Tuttle and Dillard 2007; Galbreath 2013). The studies focusing on the institutional aspects have considered three pillars of institutions namely: normative, cognitive and regulative elements. For example, it is expected that the regulatory forces in Bangladesh where this study was conducted have an influence on CSR and the corporate governance system. This is because the Securities and Exchange Commission (SEC) of Bangladesh introduced corporate governance codes and policies in 2006 for all listed companies. Prior research shows that organisations that follow a strong governance practice in their board processes tend to pursue socially responsible business practices that enhance their financial performance (Bhagat and Bolton 2008; Chen and Wang 2011; Farooque et al. 2007). In a recent exploratory study, Islam and Deegan (2008) have shown that export oriented textile and clothing companies undertake CSR to comply with the pressure extracted from powerful stakeholders such as international buyers. They further argue that Bangladeshi organisations are also voluntarily practicing CSR to strengthen their legitimacy. In a separate note, Hossain et al., (2015) note that CSR in Bangladesh is not merely driven by powerful stakeholders but also by organisations' motivations towards voluntary social obligations to fulfil community expectations.

In contrast to the business case, CSR from the ethical, normative or moral perspectives view organisations as a social product, and therefore, organisations have ethical responsibilities to societies and communities where they operate (Deegan 2002). It is also evident in the literature that failure to comply with the expectations of society through legitimate behaviour might result in corporate failure and create legitimacy threats for the organisation. Within recent CSR literature a number of studies have empirically tested the impact of CSR on firm performance with inconclusive findings, which eventually refer to the potential existence of some intervening variables.

There is some debate concerning the relationship between CSR and corporate financial performance even though an increasing number of studies suggest a positive relationship. The literature suggests that an organisation can satisfy their stakeholders through CSR practices (Donaldson and Preston 1995; Ullmann 1985; Clarkson 1995). Stakeholder theory is based on how an organisation manages the concerns of relevant stakeholders which ultimately influence organisation's performance. The normative aspect of stakeholder theory argues that organisations will manage their stakeholders for their own existence as part of their moral or ethical responsibility (Donaldson and Preston, 1995). Clarkson (1995) modified Carroll's (1979) model and added strategic posture in addition to economic, legal, ethical and discretionary responsibility.

The legitimacy perspective asserts that organisations continually seek to legitimate their operations through social and environmental friendly actions. The notion of legitimacy theory derives from the 'social contract' that offers an organisation the 'license to operate' within society. A number of previous studies (Patten 1991; Roberts 1992; Govindan et al. 2014) have investigated the nature of CSR activities where legitimacy pressure was found to be as an important factor for CSR practices. It has been argued that organisations accept social and environmental compliance to gain legitimacy which, in turn, has been linked with the governance process. Recent CSR literature argues that environmental, social and governance (ESG) practices are interlinked and a firm's performance is positively related with ESG practices (Galbreath 2013; Kiernan 2007). Chen and Wang (2011) confirm that CSR acts as a tool for legitimization. Institutional theory is a well-known framework and for the purposes of this paper contends that various institutional factors such as laws, rules, regulations, social and cultural factors influence CSR practices (Momin and Parker 2013). Formal institutional factors such as specific environmental regulations create pressure on organisations to follow social and environmental compliance.

In CSR research, scholars have applied many theories and in this regard Gray et al., (1995) argue that it is not possible to explore CSR by using a single theory. Therefore, to investigate the mediating role of corporate governance and corporate image on the CSR-FP relationship, the present study draws on two theories – legitimacy theory and institutional theory.

The Model and Hypothesis Development

Corporate social responsibility and corporate governance

Prior literature suggests that CSR activities have positive impacts on an firm's overall governance (Harjoto and Jo 2011; Jo and Harjoto 2011). Moreover, firms utilize CSR as a self-regulated voluntary practice in achieving social and environmental governance (Rahim and Alam 2014; Money and Schepers 2007), and can also use CSR engagement as a governance mechanism (Ness and Mirza 1991). However, it remains the case that CSR is a mechanism to meet stakeholders' expectations in order to legitimate corporate social and environmental behaviour. The relationship between CSR and financial performance considering the mediating influence of corporate governance and image is shown in Figure 1.

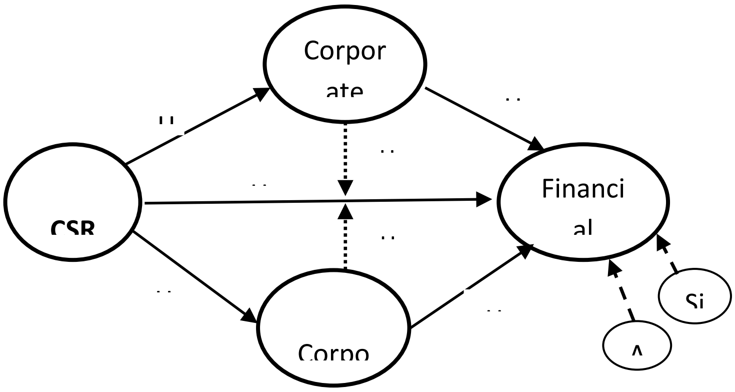

Figure 1: Research Framework

While more studies are examining synergies and interrelationships between CSR and corporate governance (CG) from various aspects of governance mechanisms (Jamali et al. 2008; Rahim and Alam 2014; Rao et al. 2012), limited research has focused on the impact of CSR dimensions on governance practices. For instance, Ho (2005) notes that CG consists of board oversight, leadership, stewardship and social and environmental responsibilities and CSR is considered to be an integral part of CG systems. Ho's (2005) argument provides evidence that CSR is related to stewardship and accountability in ensuring good CG within an organisation. The impact of CSR on CG is further illustrated by Rahim (2014), where the author argued that synergies between CSR and corporate governance provide access to the market through "cost savings, productivity, innovations, as well as broader social benefits, such as, education and community development" (P. 102). The findings of Rahim (2014) are consistent with Jo and Harjoto (2011) who reported on CSR's influence on corporate governance and argued that CSR activities that deal with internal social and environmental matters also influences external governance of the organisation. This study argues that organisations will adopt CSR practices to ensure socially and environmentally responsible business practices which eventually facilitate good governance. This leads to the first hypothesis:

H1: There is a positive association between corporate social responsibility (CSR) and corporate governance (CG)

Corporate governance and firm performance

Corporate governance (CG) has witnessed an increased attention for enhancing transparency and accountability. It has gained further consideration because of corporate scandals, such as Enron and World Com which reinforced the issues of effectiveness of law and regulations (Jamali et al. 2008; Kolk and Pinkse 2006). CG is believed to promote efficient use of available resources in the organisation that attracts low cost investment and increases confidence among the investors which ultimately helps to enhance long term-performance (Gregory and Simms 1999). CG further promotes accountability and transparency that accelerates better credit ratings and firm share price. It is also the case that separation of ownership from control has positive impacts on firm financial performance (Klein et al. 2005). Considering both developed and developing countries, Kashif (2008) investigated the influence of corporate governance on firm performance. He found that corporate governance attributes, such as board size, board composition, and ownership structure all have a positive influence on firm performance. Thus, we propose the second hypothesis:

H2: Corporate governance attributes are positively associated with firm performance

Corporate social responsibility and corporate image

Corporate image (CI) is a shared view of an organisation perceived by its stakeholders and it is considered to be an important factor for organisational legitimacy (Patten 1991; Dowling 1986). Firms can use several strategies to improve their image and CSR engagement is one of the major ways to build such image (Galbreath 2010; Vilanova et al. 2009). The existing literature shows a strong relationship between corporate social responsibility (CSR) and CI (McGuire et al. 1988). If broader stakeholder groups find any irresponsible firm behaviour, it can affect the image of that firm which ultimately threatens the firm's existence. Unsurprisingly, firms are increasingly showing their commitment to offer environmentally friendly products and services. Therefore, it is important for a firm and its management to build a strong CI and CSR is a mechanism that helps to establish that image (Arendt and Brettel 2010). Thus, we postulate:

H3: corporate social responsibility has a positive impact on corporate image

Corporate image and firm performance

A growing number of studies have empirically tested the impact of CI on firms' financial performance and found a positive relationship (Hammond and Slocum 1996; Roberts and Dowling 2002). These findings suggest that image works as a signal by which an organisation selects its strategies to satisfy stakeholders. In a separate study, Roberts and Dowling (2002) argue that "corporate image is valued in its own right, customers value associations and transactions with high-reputed firms" (p. 1079). Good firm image further helps to reduce associated costs as employees prefer to work in a reputable firm at a lower salary (Roberts and Dowling, 2002). On the basis of the above discussion, the following hypothesis is derived:

H4: There is a positive relationship between corporate image and firm performance

Corporate social responsibility (CSR) and firm performance

The empirical evidence examining the CSR and firm performance (FP) nexus is relatively extensive. Despite mixed results reported by scholars, the majority of studies show positive relationships between CSR and FP (Lu et al. 2014; Griffin and Mahon 1997). Scholars broadly argue that organisations can benefit from CSR practices through gaining more customers (Gallardo-Vázquez and Sanchez-Hernandez 2014). Safer workplaces and ensuring human rights for employees leads to better output in production that increases firm performance (Dawkins and Lewis 2003; Saleh et al. 2011). As part of CSR practice, firms provide quality products and invest in community development activities which has implications for long term firm performance (Waddock and Graves 1997; Mahoney and Roberts 2007). In addition, being a responsible employer by providing training and employment facilities, a firm may also reduce employee turnover and improve performance. These activities have direct influence on the firm's market return, sales growth, profitability, and thus on overall financial performance (Orlitzky et al. 2003). CSR is, therefore, considered as a key financial performance tool for firms. Hence, we hypothesise:~~,~~

H5: Corporate Social Responsibility has a positive impact on firm performance.

Corporate governance and corporate image as mediator of the link between CSR and Firm performance

A large number of scholars have empirically investigated the relationship between CSR and firm performance (FP); however, produced mixed and inconsistent results (Berman et al. 1999; Galbreath and Shum 2012). Recent literature identifies some other variables, such as corporate governance and reputation play a vital role in the CSR and FP link (Galbreath and Shum 2012; Jamali et al. 2008). Recent work by Rahim (2014) argues that CSR has influence on a firm's governance practices and further reports that governance has positive links with firm performance. CSR increases corporate image by creating positive customer perceptions. Many authors report that reputation has positive impact on firm's market share, and on market returns in terms of assets and equity (Galbreath 2010; Hammond and Slocum 1996). The evidence therefore, shows that CSR, corporate governance and corporate image all have a positive influence on firm performance. We, therefore, propose the final hypothesis:

H6: Corporate governance and corporate image mediate the relationship between CSR and FP

Methods

Sample and data collection

A growing number of studies have used content analysis for CSR measurement based on published annual reports data (Adams and Kuasirikun 2000; Guthrie and Abeysekera 2006) or secondary data sets mainly focused on US samples (Galbreath and Shum 2012). For the purpose of this study, firms were selected from a developing country, Bangladesh, where data sets and published annual reports do not exist. Therefore, we have chosen a questionnaire survey which is appropriate in this situation (Lai et al. 2010) particularly where secondary data sets are unavailable. A pilot study was conducted with 30 managers and carried out an extensive literature search before preparing the final survey.

Using a list of companies listed in the Chittagong Stock Exchange, Bangladesh, we initially selected 320 firms. Questionnaires were sent to the Managing Directors or Chief Executive Officer who has knowledge and power to undertake strategic decision making for the business operations as well as CSR strategy. Questionnaires were sent by either email or fax. The organisations are mainly classified as manufacturing or services. The common method bias and error is a challenging issue in survey methods. Further initiatives have been taken following the guidance of Podsakoff et al., (2003) to reduce the common method bias. Firstly, adequate attention was given to systematically examine the construction of items to avoid ambiguous, vague and unfamiliar terms by mostly relying on previously tested scales. Secondly, data were collected carefully from the respondents who possess relevant knowledge on the subject area. Like other studies in CSR survey research (See for example, Maignan and Ferrell 2001) the initial response rate was very low (18 percent). After three rounds of follow up email and phone calls, we received 176 responses. Following missing data, we had a sample of 155 usable responses (48 percent).

Of the 155 valid responses, the most prominent industries include manufacturing (36.4 percent), financial services (24.5 percent), textiles (11 percent), chemical and pharmaceuticals (12.9 percent) and other services (15.2 percent). Demographic statistics revealed that the mean firm size was 732 employees and the mean firm age was 16 years.

Measures and Variables

This study adopted and used all measures for both independent and dependent variables from the existing literature. The questionnaire comprised four sections with each part separately evaluating the organisation's CSR practices, corporate governance (CG), corporate image (CI), and firm performance. All measures used 7-point Likert-type scale with the anchors ''strongly disagree'' rated 1 to ''strongly agree'' rated 7.

Corporate Social Responsibility (CSR)

The measurement of CSR practices used in this study included compliance related to: (1) environmental; (2) energy; (3) human resources; (4) community; and (5) products. This study adopted Deegan's (2002) CSR conception which was originally adopted from Hackston and Milne (1996). Based on earlier literature, Galbreath and Shum (2012) argue that a universally accepted measurement of CSR is "neither available nor possible (p. 218)" though several authors have used Carroll's (1979) CSR conceptualisation such as economic, ethical, legal and discretionary responsibility.

Corporate governance (CG)

CG is a system by which organisations are directed and controlled (Brennan and Solomon 2008). In this study, the items for CG are selected from Jamali et al., (2008). Thus, measures include eight items that covers all aspects of CG.

Corporate Image (CI)

CI is described as an organisation's strategy to create a desired identity (Gray and Balmer 1998; Roberts and Dowling 2002). This study adapts four measurement items to assess CI from Lai et al., (2010) and Galbreath and Shum (2012).

Financial performance (FP)

FP is measured by three items including return on assets (ROA), return on equity (ROE) and firms overall profitability. Prior research on CSR–FP have widely used these items to measure firm's financial performance (Saleh et al. 2011; Galbreath and Shum 2012) though many have used data from annual reports. Only a limited number of studies have used subjective measures of FP based on perceptions from an organisation's perspective (Galbreath 2010). In the absence of availability of financial data, this study used respondents' perceptions on financial performance as this provides more opportunity for comparisons between different industries.

Control variables

Consistent with prior CSR literature, this study considered two control variables – firm size and firm age –on account of their potential confounding effects on business outcomes. Firm size was measured by the number of employees. Firm age was measured by the number of years the firm had been listed on the stock exchange. These two variables have previously been included in prior CSR studies (Galbreath 2013; Galbreath and Shum 2012).

Analysis and Results

Measurement model

Figure 2 represents the results of Partial Least Square (PLS) analysis. The study used SmartPLS 2.0 M3 to analyse the research model. The measurement model of all constructs initially evaluated the adequacy of each multi-item scale. The initial model consisted of 43 observed variables. This study measures internal consistency, reliability, convergent validity, and discriminant validity prior to testing the hypotheses. Referring to Igbaria et al.'s (1995) and Hulland's (1999) recommendation, this research considered 0.6 as the minimum cut-off level for each item. Following this rule, few items were eliminated. The revised model with 38 items was further tested using SmartPls 2.0M3 (Ringle et al. 2005) and found all items exceeding cut-off value 0.6 (see Table 1). The results affirmed that all items are sufficient to represent their respective construct.

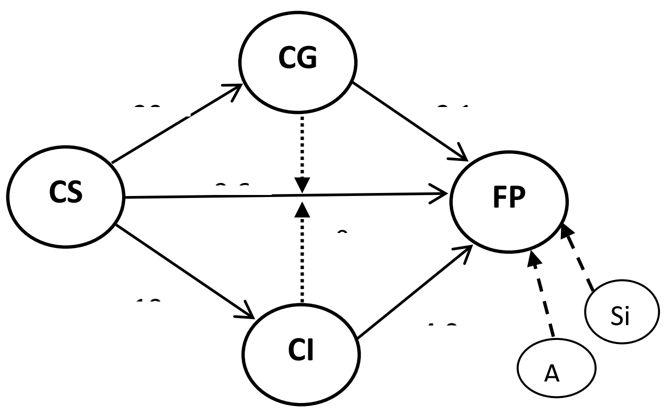

Figure 2: Results of PLS analysis

To evaluate the internal consistency of the measures, Cronbach's alpha, composite scale reliability (CR) and average variance extracted (AVE) were calculated as suggested by Chin (1998) and Fornell and Larcker (1981). Table 1 represents that Cronbachs alpha for all measures exceeded the cut-off value indicating higher internal consistency. The composite reliability and average variance extracted for all measures exceeded the cut-off value (0.70 or more and 0.50 respectively), suggesting adequate reliability of the measures (see Table 1).

Table 1: Measurement items and validity assessment

Construct	Item	Factor Loading	(CR)*	Cronbach's alpha	AVE
Environment	E1- Compliance with environmental laws and regulations. E2- Policy for pollution reduction E3- Environmental damage repairment E4- Use of recycled materials E5- waste management practices	0.7319 0.6979 0.8205 0.6619 0.7663	0.86	0.79	0.54
Energy	En2- Efficient energy use En3- Reduce energy consumption En4- Discloser of energy policy En5- Concern about energy shortage	0.6934 0.8133 0.83 0.6463	0.84	0.74	0.56
Human Resource and human rights	HR1- Occupational health and safety policies HR2- Sweatshop free work environment HR3- Equal employment policies HR4- Child labour compliance HR5- Training for employee development HR6- Sufficient wages for the workers. HR7- Maternal and parental leave facilities HR8- Performance appraisal policies	0.6474 0.6571 0.7122 0.7208 0.784 0.7488 0.745 0.6526	0.89	0.86	0.51
Community Involvement (Ci)	Ci2- Policies to support local community Ci3- Indigenous community support Ci4- Community poverty alleviation Ci5- Support sponsored campaigns	0.7587 0.807 0.7324 0.7328	0.84	0.75	0.58
Products /services	Ps1- Information of products/services Ps2- Safe products/services Ps3- Environmental friendly products.	0.7815 0.8746 0.7918	0.86	0.75	0.67
CSR (Second-order construct)	E- Environment En- Energy HR- Human resource and human rights Ci- Community involvement Ps- Products/services	0.7731 0.7685 0.8666 0.8842 0.8456	0.92	0.89	0.69
Corporate Governance	CG1- Board has clear policies CG2- Chairman and CEO are independent CG3- Board of the directors committees. CG4- Review of strategic goals CG5- Composition of independent directors. CG6- Sufficient remuneration schemes CG7- Diversified ownership structure CG8 – Governance related code of conducts	0.6713 0.7708 0.7475 0.7565 0.7372 0.7066 0.7908 0.7209	0.91	0.89	0.55
Corporate Image	CI1- Customers consider as professional CI3- Overall positive customer perception CI4 – Highly reputed firm	0.8099 0.7547 0.8214	0.84	0.71	0.63
Financial Performance	FP1- Good return on equity FP2- Positive return on assets FP3- CSR enhances profitability	0.7441 0.8255 0.8426	0.85	0.73	0.65

*CR= Composite reliability

Assessment of the discriminant validity of the measures was the next step to measurement validation. A construct should share more variance with its measures than with other constructs in the model (Barclay et al. 1995; Chin 1998). The square root of the AVE should exceed the inter-correlations of the construct with the other constructs in the model (Fornell and Larcker 1981). Table 2 represents discriminant validity of the constructs of CSR, corporate image, and corporate governance (CG) where the square root of the AVE exceeds the inter-correlations of the constructs with the other constructs in the model (Henseler et al. 2009). Cross loadings of the items were also inspected to find out additional support for discriminant validity (Chin 1998, 2010). Finally, it can be concluded that the results exhibited satisfactory discriminant validity of the CSR-FP model.

Table 2: Discriminant validity

	E	En	HR	Ci	Ps	CG	CI	FP
E	**0.738***							
En	0.599	**0.750**						
HR	0.567	0.712	**0.752**					
Ci	0.401	0.631	0.738	**0.758**				
Ps	0.367	0.563	0.566	0.654	**0.817**			
CG	0.668	0.7	0.713	0.639	0.628	**0.785**		
CI	0.516	0.526	0.625	0.588	0.517	0.769	**0.795**	
FP	0.638	0.542	0.591	0.484	0.403	0.711	0.730	**0.805**

*Note: Bold figures on the diagonal are the square root of the AVE.

Keys: E-Environment, En-Energy, HR-Human resource, Ci- Community involvement, P- Products/services, CG- Corporate governance, CI-Corporate image, FP- Financial performance

Assessment of the structural model

A bootstrapping procedure was used to test the statistical significance of the model as well as the hypothesized relationships (Chin 1998; Ringle et al. 2005). The results of the structural model indicated that all but one (indirect effect between CSR and FP) proposed relationships received strong support and all of the proposed hypotheses are confirmed except one. The results reveal that CSR enhances governance practice in the organisation (β= 0.82, t= 18.40, $p < 0.01$) in support of H1. The results also exhibit a strong positive effect of CSR on corporate image (β= 0.67, t= 9.64, $p < 0.01$), which also support H2. Moreover, the direct effects of corporate governance on firm performance (β= 0.28, t= 3.10, $p < 0.01$) and corporate image on FP (β= 0.44, t= 4.18, $p < 0.01$) are also significant and support H3 and H4. The results of the structural model, detailing the path coefficients and t-statistics are presented in Table 3. The nomological validity or explanatory power of the model can be observed through assessing R^2 values of the endogenous constructs. Based on the R^2-value it can be inferred that the model explains 59 percent of the variance of the CSR-FP model. The generated R^2 value of firm performance is moderate, which is acceptable for an endogenous latent variable with only a few exogenous latent variables (Henseler et al. 2009).

Table 3: Structural properties of the constructs

Hypothesis	Relationship	Coefficient (β)	*t*-value	Result
H1	CSR → Corporate governance	0.82	20.29	Supported
H2	CG → FP	0.28	2.197	Supported
H3	CSR → Corporate Image	0.67	10.42	Supported
H4	CI → FP	0.44	4.04	Supported
H5	CSR → FP (Direct Effect)	0.66	9.61	Supported
H6	CSR → FP (With mediators)	0.123	0.912	Not-supported
	Endogenous Construct	Model		
R^2	CG CI FP	0.67 0.45 0.59		

Mediating effect of corporate governance (CG) and corporate image (CI)

This study proposes corporate governance and corporate image as mediators between CSR and firm's financial performance. This conception refers that, CSR positively affects CG and CI, which consequently lead to better performance. This study followed the procedure proposed by Baron and Kenny (1986) to test the mediating effect. If the indirect effect of CSR on FP is significant as compared to the direct effect of CSR on FP, this will support to establish the significant role of CG and CI in implementing CSR. At the outset, the relationship between CSR and firm performance is assessed. The relationship between CSR (independent variable) and FP (dependent variable) is significant (β= 0.66, *t*= 9.61, p < 0.01). After the inclusion of mediators the model is further assessed with all paths estimated to test mediation effects. The results (Table 3) indicate that the significant relationship (assessed earlier without including mediators) between CSR and FP becomes insignificant (β= 0.12, *t*= 0.912, p < 0.01), exhibiting existence of full mediation (e.g., Baron and Kenny, 1986). Hence, the final model argues that CSR is positively associated with firm performance; however, the effect is indirect. The existence of full mediation also demonstrates that CSR in conjunction with corporate governance and corporate image helps in achieving better firm performance.

The effect of control variables

The impact of control variables were evaluated by estimating the R^2, path coefficients and t-values considering two conditions: (a) the impact of control variables was considered separately based on size and age; (b) the impact of control variables size and age was considered together. To explore the significance of the control variables' impact, it is essential to analyse the impact of control variables under different conditions, which also helps to explore the vibrant relations of control variables.

Upon careful examination of the impact of control variables on FP (Table 4) it emerges that the impact of age is significant (**β**= 0.0932, *t* = 2.0354; **β**= 0.0891, t = 1.9071**;** $p <0.05$) in all conditions as mentioned earlier; however, the impact of size is insignificant in all conditions. This is also consistent with the study of Galbreath (2010). The result infers that firm age has a significant impact on CSR assisted firm performance. The result also reveals that size does not always significantly contribute to CSR assisted firm performance; rather, experience (age) plays a more important role in this regard. Table 4 presents the impact of control variables:

Table 4: Impact of control variables on FP

		FP		
Size	Age	R^2	Path loading and *t* value	
			Size	Age
**	--	0.5907	0.0395 , *t* = 0.7161	---
--	**	0.5976	---	0.0932, *t* = 2.0354
**	**	0.5979	0.0243 , *t* = 0.4345	0.0891, t = 1.9071

*Significant *p<0.05*(.05==1.645)

Global fit measure

This study estimated global fit measure (GoF) index to measure the overall fitness of the proposed model. GoF for PLS path modelling is defined as the geometric (or arithmetic) mean of the average communality and average R^2 for endogenous constructs. The GoF yielded in this study is 0.5849 for the complete model, which exceeds the cut-off value of 0.36 for large effect sizes of R^2. Hence, it can be concluded that the fit index for this CSR-FP model is good enough in comparison with the baseline values (GoF_{small} = 0.1, GoF_{medium} = 0.25, GoF_{large} = 0.36).

$$GoF= \sqrt{AVE \times R^2} = \sqrt{0.6084 \times 0.5624} = 0.5849$$

Discussion and implications

This study has examined the mediating effect of corporate governance (CG) and corporate image (CI) on the relationship between CSR and firm's financial performance. The empirical findings support all the hypotheses except the indirect link between CSR and firm performance. Without the existence of CI and CG the link between CSR and FP is positive and significant whereas with the inclusion of both mediating variables the link has become insignificant demonstrating the full mediating (e.g., Baron and Kenny 1986) role of CI and CG on the CSR-FP link and this is also consistent with prior studies (see Lai et al., 2010; Galbreath and Shum, 2012). The results show that CSR has a positive impact on CG which demonstrates that CSR supported corporate governance ensures control mechanisms, reduces operational risk, increases transparency to stakeholder interest through self-regulated strategies which eventually enhances firm performance (Jamali et al., 2008; Rahim 2014). The result also highlight that CSR builds strong corporate image through socially responsible business operations which ultimately create a positive impression to stakeholders as well as firm performance (Galbreath and Shum, 2012). A number of studies have investigated the link between CSR and FP considering some mediating variables like customer satisfaction, employee turnover, and corporate reputation. However, CG as a mediator has largely being ignored in prior studies. Thus, our study has filled this gap by showing the importance of CG and CI in improving firm performance. Moreover, the synergies between CSR and CG indicated that firms CSR activities have a positive impact on CG to ensure accountability and transparency of the firm's operations (Harjoto and Jo, 2011) that lead to better CI and performance.

These findings suggest that CSR has an effect on governance and corporate image that indirectly leads to better financial performance. This implies that through CSR activities firms ensure good governance for its long term sustainability and existence. If an organisation fails to ensure their presence and accountability through governance, it might cause or threaten their existence. In this regard, legitimacy theory argues that failure to legitimise within the community where firms operate might risk their operation in a particular society. The results further indicate that firms seek to build a good corporate image for their existence. Thus, we provide empirical support of earlier studies in developing countries by Belal and Owen (2007) and Islam and Deegan (2008) who argue that CSR is a tool for legitimisation of CSR activities. From a legitimacy theory perspective, we argue that organisations are ethically responsible to meet societal expectations where they operate. Moreover, this study confirms that CSR influences corporate image to satisfy the stakeholders and also contributes to a firm's financial performance.

CSR activity in developing countries such as Bangladesh is linked with institutional factors like corporate governance and institutional initiatives (Rahim and Alam, 2014). This study suggests that institutional factors such as corporate governance has not only influence on CSR but also has a positive impact on firm performance. The influence of institutional factors on firm's CSR practices has been supported by earlier CSR studies (see Galbreath, 2010). More particularly, board oversight and effectiveness of different committees in the board processes contribute significantly to ensure governance in that organisation and thereby positively influences the voluntary CSR practices in Bangladesh. This paper also provides a significant contribution to the CSR literature by investigating the impact of corporate governance on CSR. This finding is consistent with Rahim's (2014) work where the author argues that the relationship between CSR and governance is reciprocal and organisation's governance practices enhance social and environmentally responsible business operations.

Implications for managers and policy makers

Based on the results, the research offers several managerial implications. First, whilst CSR has positive impact on firm's financial performance (FP), there is limited empirical evidence regarding the relationship between CSR, corporate governance (CG), corporate image (CI) and performance. Many scholars argue that the relationship between CSR and FP is still debatable because empirical evidence shows mixed results (See for example, Lu et al. 2014). This study finds that there are some other intervening variables such as CG and CI which play a mediating role in the relationship between CSR and FP. Second, the findings of this study indicate that CSR has implications for a firm's governance system. Good CG enhances internal control systems that assure financial transparency of an organisation. Jamali et al. (2008) assert that good CG resolves the interests of all internal and external stakeholders and it enhances the competitiveness of a firm that results in share price increment.

Third, CSR and corporate image (CI) is interlinked in the literature. CSR provides competitive advantage for the organisations through customer satisfaction, employee satisfaction, reducing employee turnover, developing brand equity etc. (Galbreath 2010; Lai et al, 2010) that consequently creates brand value and increases corporate image. In an Australian context, Galbreath and Shum (2012) affirm that CI has a positive influence on firm performance. The findings of the current study are also in line with Galbreath and Shum (2012) where CI helps an organisation in acquiring more customers which in turns result in better firm's performance. The findings also suggest that managers need to understand the benefits of CSR and its impact on firm performance along with other potential mediating variables like CG and CI. Thus, organisations should conceptualise and practice CSR in conjunction with other accompanying variables that mutually facilitate firms' performance. Fourth, the managers and policy makers might unearth interesting insights from this study which justifies the necessity to pursue CSR as a tool for competitive advantage. There is an opportunity for firms in a developing country like Bangladesh to closely observe the impact and benefits of CSR as a strategic tool which can potentially enrich their long term sustainability. Fifth, multinational companies working in developing countries will benefit from these findings to further conceptualise important CSR insights and improve their social and environmental investment. This will help create positive social and financial performance. Lastly, CSR is an emerging concept in developing countries where most of the organisations adopt CSR on ad-hoc basis (Belal and Cooper 2011). Managers in developing countries including Bangladesh should realise that CSR practices should be formal to meet the expectations of stakeholders.

Conclusion

Despite the importance as well as inconsistent impact of CSR on firm performance, there has been limited empirical evidence that investigates the mediating role of corporate governance (CG) and corporate image (CI) between the CSR-FP links. Hence, this study examines the direct and mediating role CG and CI have on FP to fill this void in the literature. Considering the widely used theories such as legitimacy theory and institutional theory, this study confirms that CSR has a positive influence on firm performance. Organisations voluntarily undertake CSR activities to satisfy the stakeholder's social and environmental concerns. The CSR activities of an organisation also aim to legitimate their operations in the society in order to ensure long-term sustainability of the firm. Our results revel that CSR has a positive effect on FP via CG and CI which eventually supports the mediating role of CG and CI.

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