

Does Corporate Image Mediate the Link between Corporate Social Responsibility and Performance? Evidence from Kenyan Listed Firms

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Abstract

The purpose of this study was to empirically investigate whether corporate image mediates the relationship between corporate social responsibility and firm performance. To test the hypothesis, cross-sectional dataset gathered using a questionnaire from 61 listed firms at the Nairobi Securities Exchange was employed. CSR, corporate image and FP were operationalized using composite indices generated by aggregate mean of their respective indicators. These indicators were adopted from the prior empirical works. CSR was measured using community, environmental, supplier, employee, investors and customer dimensions while corporate image indicators comprised of product quality, vision and leadership, emotional appeal and innovation. FP was proxied by non-financial metrics such as customer satisfaction, internal business processes and customer satisfaction. The estimation technique adopted in this study was structural equation model. Empirical findings indicated that the link between corporate social responsibility and firm performance was not direct; the effect of CSR on FP was transmitted via corporate image.

Keywords: *corporate social responsibility, corporate image, firm performance, structural equation model.*

1.1 Introduction

Although corporate social responsibility (CSR) has for a long time been a voluntary practice among many firms, it has lately become an important corporate strategy globally in a competitive business environment. Owing to rising demands from many stakeholders for organizations to carry out an array of responsibilities beyond the customary activities that are profit oriented, CSR has become a focal point for many firms in an attempt to ameliorate their corporate image as well as firm performance (FP). Especially, the emergence and widespread application of CSR as an integral corporate strategy for corporate success has led to reengineering of business models globally (Widiastuty & Soewamo, 2019). Today, many corporate bodies are voluntarily practicing

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CSR related activities and publicizing social actions in diverse platforms with an aim of convincing different stakeholders that they are sensitive to a continuum of social related plights. These actions aid in positively highlighting the firms' concerns in the eyes of varied stakeholders thus giving them desirable image capital (Park, 2017). Consequently, favourable image spurs stakeholder confidence and trust and therefore leads to improved FP.

The motivation for strategically investing in CSR related practices has sharply divided scholars owing to extant divergent viewpoints and this continues to be a source of debate, disagreements and tension. The supporters of CSR implementation give significant credence to these practice since it enriches corporate image capital, reduces operational costs, help in crafting internal capabilities, attracting talented workforce, creates unforeseen business opportunities, attracts diverse corporate resources, increases corporate sales as well as fostering customer relations (Pradhan, 2016). This is essential in giving an organization a competitive edge and this has positive implication on overall FP. The skeptics of CSR however consider responsible actions as a subversive doctrine that contravenes the profit maximization motive fronted by Friedman (1970). The conventional view suggest that CSR is an expensive venture due to the related unwarranted additional costs that might surpass organizational revenues and therefore adversely affecting corporate wealth thus reducing shareholders wealth and profitability (Rahman, 2016).

Despite the heightened attention that CSR has received from many stakeholders, CSR as a concept is highly fragmented due to lack of universal definition of the term. Due to lack of conceptual clarity with respect to CSR, operationalization of this variable remains complicated owing to heterogeneity of dimensions and the missing consensus on the theoretical meaning of the concept. This has made it difficult to conclusively link CSR to other variables such as corporate image and FP since their metrics equally vary (Yang, Yacoob & Teh, 2017). This explains why despite a plethora of numerous empirical efforts, the relationship between CSR and FP via corporate image still remain elusive and inconclusive. However, the dominant argument in favour of CSR participation is the widely cited belief that it amplifies corporate image thus providing organizations with competitive clout which eventually translates into improved FP (Sindu & Arif, 2017).

The empirical and theoretical literature suggest that the link between CSR and FP is not direct as initially predicted in the prior empirical works, but it is transmitted through a another variable that intervenes the hypothesized linkage. As a result, corporate image has emerged as an important mediator in probing CSR-FP relationship. Corporate image is a vital corporate resource that differentiates one firm from another in a competitive market and explains why some firms outperform their counterparts (Mikolajec-Gojejna, 2016). CSR has been identified as a major source of positive image capital and this is what essentially gives firms competitive edge in the market. A similar viewpoint is also shared by Kaskeen (2017) who suggests that corporate image is a valuable intangible asset that shapes and enhances clients' commitment, behaviour intention, repurchase intention and needs fulfilment. Socially responsible actions embeds long-lasting corporate image in the minds of varied stakeholders which yields reputational capital (Kelly, Hemphill & Thons, 2019). By attracting new clients, increasing sales and inspiring stakeholder confidence; corporate image enable organization to create remarkable competitive advantage which is reflected in superior FP (Lin & Graduate, 2017).

1.2 Research Problem

Debate continues among the academicians, scholars and researchers on the impending legitimacy of CSR, corporate image and their related benefits and their linkage with the FP. This reflects a point of contention in empirical literature due to lack of universally accepted methodology and framework for probing the variable linkage (Wardhani, Awalludin, Reniati, 2019). There is no convergence in empirical literature as to whether corporate image mediates CSR-FP relationship due to mixed findings. The inconclusive findings range from positive to negative relationship (Almagir & Uddin, 2017). This can be ascribed to the manner in which study variables are defined and selected; the choice of data, sample size and sample selection, varied study time frames, omitted control variables such as mediators/moderators and miss-specification of the econometric models.

Corporate performance disparities among many organizations has been a major concern to the management and investors. Although there are multiple causes of these variations that have been

validated empirically, CSR has been singled out as one of the most critical contributors (Taghian, Souza & Polonsky, 2015). Given the additional costs that are associated with CSR programs, it is therefore important to probe the motivation behind proliferation of socially responsible actions among many firms. This study therefore seeks to ascertain whether the quest for positive corporate image justifies CSR investments among the listed firms.

Globally, failure by multi-national corporations to engage in CSR activities has proven to have serious repercussions on the FP and survival of these firms. For instance, several multinational corporations have paid huge sums of money for failing to be socially responsible. British petroleum (BP) was fined billions of dollars for oil spill disaster in the Gulf of Mexico in the year 2010, Toyota paid huge sum of money for concealing defective parts in the year 2010 and more recently Monsanto paid colossal sum of money for failure to disclose cancer causing roundup weed killers in the year 2018 (Bissoon, 2018). This not only adversely affected the corporate image of these firms, but also their aggregate FP.

Although the link between CSR, corporate image and FP has been investigated for decades, there is still no unanimity of the definition and what constitute their dimensions. This has been the major source of conflicting empirical findings as a result of variable measurement related issues. At the contextual level, disparities in institutional, economic and cultural settings between developed and developing markets as well as sectorial differences have led to mixed results (Zainab, Anju & Muneer, 2018). Similarly, the bidirectional linkage between CSR and FP has made it difficult to conceptualize the actual relationship as well as identifying the appropriate mediators that bridges the hypothesized association. Furthermore, methodological flaws in terms of the choice of estimation models, data composition and sample selection have led to mixed findings. This study therefore seeks to address these highlighted gaps by probing the moderating role of corporate image on the relationship between CSR and FP among the Kenyan listed firms.

1.3 Research Objective

The objective of this study is to determine the mediating influence of corporate image on the relationship between corporate social responsibility and performance of firms listed in Kenya.

2.1 Theoretical Background

The mediating role of corporate image on CSR-FP relationship is premised on stakeholder and resource based view theories. Stakeholder theory popularized by Freeman (1984) has become one of the key and widely applied theoretical framework in CSR-FP literature. Stakeholder theory affirms the positive link between CSR and FP. By satisfying the needs and expectations of multiple stakeholders, CSR as a strategic tool has a positive impact on FP. This theory suggest that corporate success is an outcome of how firms strategically manage their relations with plurality of stakeholders (Kaskeen, 2017). The mechanisms under which different stakeholders affect FP vary among market and non-markets constituents. For instance, market constituents such as creditors, employees, suppliers and customers can directly cause deficit in economic rents by making negative economic choices. The potential influence of non-market constituents such as media and general public on the other hand can indirectly be felt by the manner they convey corporate information. When stakeholders are handled well, they respond by developing positive behaviors towards corporate practices as they will be more worried with organizations' welfares and may be inspired to avail additional corporate resources to support business operations thus ameliorating FP (Zainab *et al.*, 2018). Conversely, dissatisfaction of any stakeholders group has a potential of affecting economic rents thus compromising the organizational future performance.

Resource based view (RBV) is another important theory propounded by Penrose (1959) and later developed by Wernerfelt (1984) and Barney (1991). RBVT overtly highlights the importance of organizations taking advantage of their distinctive core resources including proficiencies so as to achieve competitive edge as well as exceptional FP. As a result, the capacity of an organization to attain competitive edge principally depends on the utilization of a package of resources at its disposal which must be imperfectly permanent and diverse in nature. Barney (1991) came up with VIRN framework which postulates that for corporate assets to produce continued competitive edge, they must be valuable, inimitable, rare and non-substitutable. The fundamental preposition

of resource-based theory is that corporate entities possess heterogeneous resource endowments, and therefore can utilize these beneficial resources to employ and identify those organizational processes, capabilities, assets, and know-hows that improve their efficacy to deliver extraordinary competitive advantage (Yussof & Adamu, 2016). Therefore, corporate image is considered as a vital intangible resources which is an outcome of CSR engagement and plays an integral role in improving FP.

2.2 Empirical Literature

Most of the previous empirical investigations have supported the mediating role of corporate image on CSR-FP relationship. Using stakeholder approach framework, Taghian *et al.* (2015) examined the linkage between CSR, image and FP. The study employed cross-sectional data obtained from a sample of 2,932 Australian firms during the fiscal period 2009 to 2014. CSR was represented by employee, community and shareholder dimensions; corporate image was captured by Fortune's reputation quotient index whereas FP was proxied by profit after tax. To test the hypothesis, structural equation model (SEM) was employed owing to its statistical dexterity. The study confirmed that corporate image mediated the relationship between CSR and FP.

To test the mediating role corporate image on the nexus between CSR and FP, Yang *et al.* (2017) conducted an empirical study using data drawn from a sample of 256 Chinese SME's during the year to 2012 to 2016. To examine the hypothesized linkage, partial least squares technique was applied. CSR was measured using environmental, social and governance (ESG) dimensions while FP was explored from operational performance viewpoint. The findings affirmed positive significant linkage between CSR and FP while image mediated the relationship.

While employing partial least square (PLS) as an econometric estimation strategy to analyze data, Agyemang and Ansong (2016) explored the relationship between CSR and FP with corporate image mediating the hypothesized association. To fulfil this objective, the researchers adopted a sample of 423 Ghanaian SMEs located in Accra and the cross-sectional data was gathered during the period 2014-2015. CSR was measured by customers, employees, environment and community dimensions; FP was captured by sales growth and profitability while image was measured by

quality of management, workforce and products. The outcome suggests that engagement CSR activities positively boosts company's image which in turn leads to superior FP.

Similarly, Almagir and Uddin (2017) re-examined the intervening influence of corporate image on the interaction between CSR and FP. To test the hypothesis, structural equation model (SEM) and causal steps approach popularized by Boron and Kenny (1986) were used for estimation purposes. Corporate image was measured by client's professionalism and perception; CSR indicators comprised of social, environmental, employee and community aspects; while performance was operationalized by ROA and ROE. The findings based on data drawn from 125 companies in Bangladesh suggested that there was an indirect linkage between CSR and FP and therefore the relationship was transmitted through corporate image.

To investigate the connection between CSR, corporate image and FP, Zainab *et al.* (2018) employed regression analysis using broad data set which comprised of 240 clients in the Bahraini banking industry between the years 2014-2016. CSR indicators were categorized into ethical, economic, philanthropic and legal aspects; corporate image metrics encompassed brand awareness and clients' commitment whereas FP was proxied by ROA. The results confirmed that CSR schemes reinforces corporate image which consequently ameliorates FP therefore confirming the partial mediation effect of corporate image.

In Pakistan, Sindhu and Arif (2017) evaluated the relationship between CSR, corporate image and FP with the help of data gathered from 50 commercial banks between the years 2015-2016. The researchers constructed a CSR index on the basis of ESG indicators, corporate image was operationalized by Fortune reputation index while FP measures were developed from balanced score card (BSC) metrics. To estimate empirical data, structural equation model (SEM) estimation method was applied in testing the research hypothesis. The results established that corporate image partially moderated CSR-FP relationship. CSR was also found to be an important contributor of superior FP.

2.3 Conceptual Framework

The study investigated the mediating influence of corporate image on the relationship between CSR and FP. The conceptual linkage between CSR and FP is not direct, but it is transmitted through a third variable, corporate image which acts as a mediator. The conceptual model showing the schematic linkages between the study variables is illustrated in Figure 1 below.

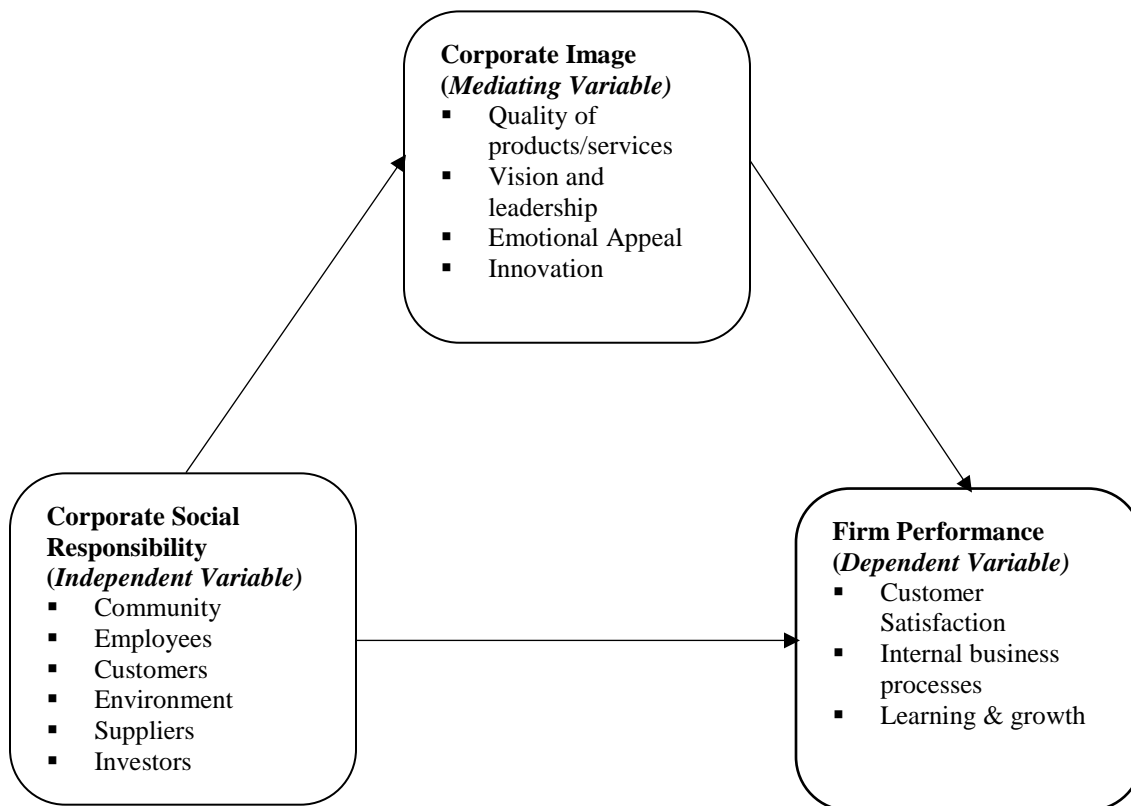


Figure 2.1: Conceptual Model

2.5 Research Hypothesis

H₀₁: There is insignificant mediating influence of corporate image on the relationship between corporate social responsibility and firm performance of firms listed at the Nairobi Securities Exchange.

3.1 Methodology

This study focused on the mediating role of corporate image on the relationship between CSR and FP. The target population comprised of all 61 listed firms at the NSE. Cross-sectional descriptive research design was adopted in testing the hypothesis. The reliability of the research instrument was assessed using Cronbach’s alpha. Face and content validity was evaluated using the expert knowledge of the industry experts as well as academic supervisors. Diagnostic test was carried out to the assumptions of regression analysis. Descriptive and inferential statistics were carried out as well.

3.1.1 Data and Variable Description

The study employed cross-sectional data which was gathered using a structured questionnaire based on a five point Likert scale. The choice of the study area was informed by homogeneity of this firms in terms of social performance and the ease of comparability. The items used to measure CSR, corporate image and FP were adopted from prior empirical works based on existing empirical and theoretical literature so as to enhance the construct validity. CSR composite was developed by averaging 52 items classified into six namely: community, environment, customer, supplier, employee and investor dimensions. Corporate image index was constructed by averaging 20 items based on four indicators: quality of products/services; vision and leadership; emotional appeal and innovation. Finally, 14 items were combined to form FP composite score under three categories: customer satisfaction, internal business processes and customer satisfaction.

Table 3.1: Operational Definition and Measurement of Variables

Variable	Operational Definition	Scale	Measurement	Predicted Sign
CSR	This voluntary integration of ecological and social perspectives into corporate actions	Interval	Composite score	+
	This is the perception, attitude, impression, feelings and beliefs that different stakeholders have about the attributes and practices of the firm	Interval	Composite score	
CI				+
FP	Is the ability and potential of an entity to effectively optimize the available resources to attain targets in tandem with organizations plans	Interval	Composite score	+

3.1.2 Empirical Strategy

To estimate the mediating effect of corporate image on the CSR-FP relationship, structural equation model (SEM), a covariance based approach was employed for scale validation and hypothesis testing. SEM is superior to other variance based methods in terms of parameter precision and reliability. In addition, SEM is also capable of supporting complex multi-mediation models as is equally capable of concurrently testing the causal steps proposed by Baron and Kenny as well as product of coefficients approach.

Mediation usually extends bivariate linkages by introducing the mediators. Under causal steps strategy of testing mediation, four steps are usually carried out with help of three regressions. In the 1st step, CSR should significantly be related to FP, while on the other hand, CSR should be significantly be related to corporate image in the 2nd step. In the 3rd step, corporate image should significantly be related to FP while controlling for CSR. Lastly, CSR should insignificantly be related to FP while controlling for corporate image. To test the mediation process, the following general linear models were employed as specified below;

$$FP = \beta_0 + \beta_c CSR + \xi \dots\dots\dots (3.1)$$

$$CI = \beta_0 + \beta_a CSR + \xi \dots\dots\dots (3.2)$$

$$FP = \beta_0 + \beta_c CSR + \beta_b CI + \xi \dots\dots\dots (3.3)$$

Where: FP = firm performance; β_0 = constant; β_c , β_a , β_c , β_b = path coefficients; CSR = corporate social responsibility; CI = corporate image; ξ = error term.

4.1 Reliability Test, Descriptive Statistics, Correlation Analysis and Diagnostic Tests

Table 4.1: Reliability Test, Descriptive Statistics, Correlation Analysis and Diagnostic Tests

Variable	N	α	Mean	SD	CSR	CI	FP	VIF
CSR	50	0.97	4.11	0.60	1			3.49
CI	50	0.96	4.13	0.72	0.84*	1		3.49
FP	50	0.74	3.67	0.45	0.50*	0.61*	1	

The composite reliability of the items was examined using Cronbach’s alpha coefficient. For items measured to be reliable, the composite reliability should be above 0.7. From the empirical results all the variables (CSR α = 0.97; CI α = 0.96; FP α = 0.74) had coefficients that exceeded the

stipulated threshold thus confirming high reliability. With respect to descriptive statistics, the average composite CSR score was considerably high ($M = 4.11$, $SD = 0.6$) suggesting that respondents agreed that their organizations had taken into consideration socially responsible actions as part of their core strategies. Respondents also affirmed that their organizations had exceptional corporate image capital as indicated by the average score ($M = 4.13$, $SD = 0.72$). The average score for FP ($M = 3.67$, $SD = 0.45$) was relatively high suggesting that the participants agreed that their organizations had outstanding FP.

To check the association among CSR, corporate image and FP, Pearson correlation was applied. The results revealed that CSR was strongly positively and significantly correlated with corporate image ($r = 0.84$, $p < 0.05$) but was moderately and positively correlated with FP ($r = 0.50$, $p < 0.05$). Additionally, corporate image was moderately positively and significantly correlated with FP ($r = 0.61$, $p < 0.05$). Based on the empirical findings, CSR was highly correlated with corporate image as indicated by the person's coefficient which is above 0.7. To rule out the possibility of multicollinearity, the assumption was further evaluated and verified using Variance Inflation Factor (VIF). The current study is cross-sectional in nature and the most serious regression assumption flaw that affects such kind of studies is the presence of multicollinearity. Multicollinearity which implies high correlation among the explanatory variables was tested using VIF. The findings suggest the absence of multicollinearity since VIF for all the variables (CSR = 3.49; CI = 3.49) were less than five.

5.1 Empirical Findings and Discussion

To test the mediating influence of corporate image on CSR-FP relationship, the null hypothesis specified below was tested.

H₀₁: The mediating influence of corporate image on the relationship between corporate social responsibility and performance of firms listed at NSE is insignificant

Simple mediation model was tested using structural equation model (SEM). Figure 5.2 displays path coefficients of direct effects (path- $c = -0.041$) and indirect effects (path- $ab = 1.02 * 0.41 = 0.42$) while total effects is derived by adding direct and indirect effects ($c = c + ab$), that is, $-0.041 + 0.42 = 0.38$.

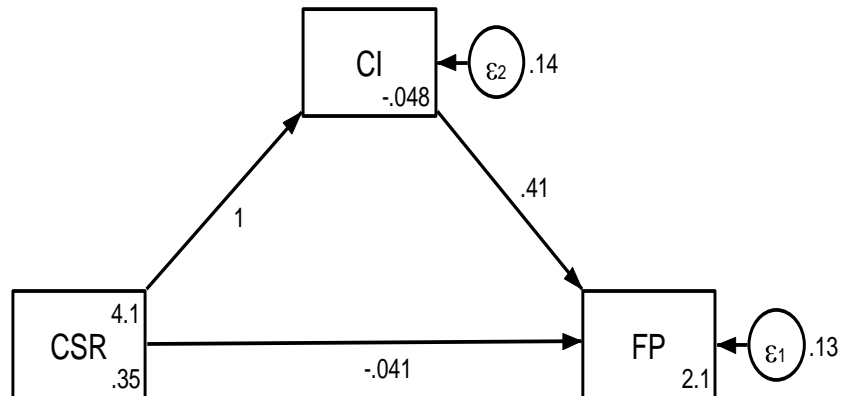


Figure 5.1: Simple Mediation Model

The path coefficients generated via SEM are analogous to regression coefficients of the mediation process using causal strategy recommended by Baron and Kenny (1986). Table 5.1 illustrates decomposition of mediation analysis into direct, indirect and total effects.

Table 5.1: Mediation Analysis (Direct, Indirect and Total Effects)

Direct Effects					
	beta	SE	t	p	Path
Structural					
FP←					
CI	0.41	0.13	3.10	0.00	<i>b</i>
CSR	-0.041	0.16	-0.26	0.80	<i>c'</i>
CI←					
CSR	1.02	0.09	11.17	0.00	<i>a</i>
Indirect Effects					
	beta	SE	t	p	Path
Structural					
FP←					
CI	0	(no path)			
CSR	0.42	0.14	2.99	0.00	<i>(ab)</i>
CI←					
CSR	0	(no path)			

Total Effects					
	beta	SE	t	p	Path
Structural					
FP←					
CI	0.41	0.13	3.10	0.00	b
CSR	0.38	0.098	4.64	0.000	c
CI←					
CSR	1.02	0.09	11.17	0.00	a

The direct effects (path-*c*) is the path from the CSR to FP while controlling for the corporate image. The empirical findings established insignificant influence of CSR on FP ($\beta = -0.041$, $t = -0.26$, $p > 0.05$) hence validating the 4th condition of mediation advocated by Baron and Kenny (1986) using causal steps approach. The indirect effects (path-*ab*) delineate the path from the CSR to FP through the corporate image. This is given ($1.02 * 0.41 = 0.42$). The findings confirmed significant and positive indirect effects ($\beta = 0.42$, $t = 2.99$, $p < 0.05$) therefore fulfilling the conditions for the 2nd and 3rd steps of mediation analysis proposed by Baron and Kenny (1986). The total effect is given by the sum of the direct and indirect effects ($c = \acute{c} + ab$), i.e. ($-0.041 + 0.42 = 0.38$). The estimation results suggest that there was significant and positive relationship between CSR and FP ($\beta = 0.38$, $t = 4.64$, $p < 0.05$) thus meeting the conditions for the 1st step of mediation process under causal steps approach. Based on the research findings, the null hypothesis (H_{01}) that there is insignificant mediating effect of corporate image on the relationship between CSR and FP was rejected.

The findings of the current study greatly converge with the outcomes of the previous studies. The findings support those of Sindhu and Arif (2017) who validated the mediating role of image on CSR-FP relationship using cross-sectional data drawn from a sample of 50 commercial banks in Pakistan. Similar findings are also reported by Almagir and Uddin (2017) who while probing CSR-FP nexus with corporate image as a mediator among 125 firms in Bangladesh confirmed the mediation effects. The findings of this empirical inquiry converge with those of Agyemang and Ansong (2016) who suggested that CSR-FP relationship was indirect, and there was causal relationship that was transmitted via corporate image. The outcome of this study is also in tandem

with those of Yang et al. (2017) who while studying 256 SMEs in China argued that corporate image play an important role in linking CSR to FP.

5.2 Conclusions, Limitations and Areas for Further Research

Although the link between CSR and FP has been extensively investigated empirically, the role of corporate image has been disregarded in most of the prior empirical works. In conclusion, the nexus between CSR and FP is not direct, but it is transmitted via corporate image. These findings affirm some of the prior empirical investigations that have validated these outcomes. Therefore CSR significantly influences FP in corporate world by generating positive image among plurality of stakeholders. CSR also is a strategic instrument that is useful in boosting image via customer satisfaction and loyalty, brand reliability, motivated workforce among other benefits. This strategic corporate resource (corporate image) often gives firms a privileged position in a competitive market by contributing to exceptional FP.

Despite the confirmation of the mediating effect of corporate image on CS-FP relationship, the study nonetheless is marred by a number of limitations. To begin with, as a result of application of cross-sectional dataset in this empirical inquiry, it is not therefore possible to ascribe causality to the hypothesized relationship. The mediating effect of corporate image on CS-FP relationship can be achieved through utilization of longitudinal data which tests both spatial and temporal effects. Secondly, the current study was carried out in developing market context and it might not be possible to generalize the findings to developed markets as a result of variation in economic, cultural, political and cultural settings. Thirdly, the current study exclusively focused on the listed firms which are usually big in size and equally have pronounced socially responsible actions in comparison to small private firms. As a result, it might not be possible to accurately predict the effect of CSR on FP.

Due to the highlighted limitations, future studies should consider incorporation of more than one mediator in the estimation process so as to test multi-mediation models. Future studies should also consider different metrics to operationalize the study variables so as to establish whether similar findings can be corroborated. Also, future empirical studies should consider investigating the

causal relationship between CSR, corporate image and FP in the context of private firms. Finally, future investigations should consider utilizing longitudinal data sets which takes into account temporal effects of variable linkages so as to ascertain whether similar findings can be confirmed.

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