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Role of Corporate Governance in Corporate Social Responsibility: Mediating Role of Organizational Performance

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Abstract

The foremost motive of this study is to explore the role of corporate governance on corporate social responsibility through the mediating the role of firm performance in Pakistan. This theoretical and empirical study has examined companies listed in Pakistan Stock Exchange (PSX) from 2015 to 2019 using Slack Resource and Good Management Theory. The dimensions of corporate governance consist of board size, executive directors, non-executive directors, and women directors. Return on Asset (ROA) has been used to measure firm performance. The data collected from (PSX) listed companies critically examines the role of selected variables. Baron and Kenny's (1986) technique is used to evaluate the mediating effect which as a result demonstrated that organizational performance has no mediation between corporate governance dimensions and corporate social responsibility. However, all the dimensions of Corporate Governance have a significant direct impact on ROA and CSR. Results also indicate that ROA and CSR have a positive relationship with each other.

Keywords: *Corporate Governance, Corporate social responsibility, firm performance, Slack Resource Theory, and Good Management Theory.*

Introduction

The conception of corporate governance refers to the underlying norm of separation between ownership and management (Berle & Means, 1932). Similarly, Jensen & Meckling, (1976) gave a valuable proposition regarding corporate governance to address the conflict between agent and principal to minimize the prospective conflict of interest that consequently arises due to separate form of ownership and control also considered as the agency theory. Thus, corporate governance is primarily divided into those who reflect corporate governance as an instrument to protect shareholder's or owner's interest also called the narrow perspective, and those who deem to protect stakeholder interests based on wider spectrum also called the wider perspective. The broader perspective of corporate governance are policymakers or advocates, whereas, those of narrow perspective are supporters of agency theory who are in favor of maximizing shareholder's wealth.

Chijoke-Mgbame et al., (2019) highlighted that the broader perspective of corporate governance encompasses the relation between corporations and an extensive range of stakeholders, such as *"shareholders, employees, creditors, suppliers, communities and customers"* also considered significant investors (Jamali et al., 2008; Monks & Minow, 2004). They provide resources to the organization to gain sustainability, accomplishment and competitiveness. On contrary, the narrow perspective considers Return on Investment (ROI) to finance suppliers giving more importance to firm performance and very nominal consideration to environmental and social activities. Hence, the impact of corporate governance on firm performance cannot be over emphasized because the board of directors play a valuable role in corporate governance that has appealed substantial consideration recently (Darko et al., 2016). This has emerged various theories of corporate governance to fortify debates on the connection between the board size and the organization performance. Thus, the board size must judge whether the interests of all stakeholders are met and justified. There are various theories that suggest a relationship between the boards of director performing actively in corporate governance impending to influence Corporate Social Responsibility and overall performance of the organization.

Similarly, Corporate Social Responsibility (CSR) perseveres to be a prime concern regarding interest of various stakeholder categories. This is mainly because of its primary concern of determining the extent of an organization's input towards societal well-being. Subsequently, CSR is widely discussed in the literature as organizations continue to deliberate means of concurrently pursuing economic proceeds and contributing to the society (Oh et al., 2017). Besides being accountable to stakeholders and society for organizations is to engross in CSR practices and unveil those outcomes being practiced as it helps to legitimize firm's activities. An organization's profitability, and existence, is highly affected by its type and extent of disclosing CSR that is driven by the structure of the governance kept in place to avoid alarming situations caused by deprived governance around the world that warns professionals, academic communities, and international bodies to incorporate self-regulation for analyzing distinct sustainable business practices.

Hence, Building an ethical framework in compliance with self-regulation would lead to responsible and efficient business practices (Zubeltzu-Jaka et al., 2018). Keeping in view responsible and efficient business practices several authors suggest the implementation of initiatives related to CSR that leads to competitiveness, corporate image, and reputation (Bebbington et al., 2008; Freeman & Hasnaoui, 2011; Young & Thyil, 2014). The Mediating Role of Corporate Governance and Corporate Image on the CSR-FP Link (Hossain et al., 2016), Corporate Social Responsibility, Corporate Governance, and Sustainability: Synergies and Inter-relationships (Sharma & Khanna, 2014) and Corporate Governance and Firm Value: The Impact of Corporate Social Responsibility (Jo & Harjoto, 2011).

Similarly, Chan et al., (2020) highlighted that an organization consider every possible action to avert negative consequences allied with low inspection quality, which challenges the interests of stakeholders. Moreover, earnings worth is observed in corporations involved in CSR reporting. Similarly, the Corporate Governance component board of directors' qualities are positively linked with corporate social disclosure, and companies with stable and strong audit committees incline to unveil information voluntarily. Furthermore, increased firm audit retention is witnessed in companies with strong financial performance, and auditor tenure is positively associated with audit quality. Further, consistent filing of CSR reports is a long-term business motive, which ultimately benefits stakeholders. CSR reports may also alleviate negative marketplace responses when companies terminate their auditors at the early stage of the auditor-client relations. Hence, auditor's discharge in the early stage of the auditor-client relations is considered incongruous with stakeholder theory.

Unfortunately, little research has been taken place regarding the role of corporate governance in CSR: the mediating role of organizational performance. This study is one of the attempts to examine the mediating role of organizational performance between corporate governance and CSR to fill the gap. This study is based on the combination of Slack Resource Theory and Good Management Theory. These theories explain that good attributes of corporate governance help to enhance firm performance and enable it to deploy its slack or surplus resources efficiently to serve society.

Literature Review

Governance is the course of action executed by the board members of a company. It is worked out by various committees in the best interest of owners and the stakeholders. They direct, evaluate, monitor, delegate, integrate, and oversee the management (Tawfeeq Yousif Alabdullah et al., 2014). Limited Liability Act, 1855 UK states that it is a structured process that is initiated in developing countries to secure the rights of investors that is owners against the management who create a conflict of interest in the firm. Malfunction of business operations such as Lehman Brothers, World Com, and Enron raised the need for governance practices. Therefore, transparent, reliable, and enforceable governance procedures are followed in the west of developed countries. On the contrary, countries with evolving markets, bolstering corporate governance will facilitate the firm to meet its crucial goals. If governance practices are performed with integrity so it will curtail evolving market weaknesses will help to accentuate rights of property, diminish transaction, and capital cost. Eventually, this will advance the organization's profitability and market capitalization (Al-Matari et al., 2012). Much research has been conducted on the relationship between fair corporate governance and firm performance (Sami et al., 2011; Ikäheimo et al., 2011; Brown & Caylor, 2004; Mallin et al., 2014; Al-Najjar, 2014). Conversely, lesser explorations have taken place discussing the relation of governance with profitability in developing countries.

Khan, Muttakin, & Siddiqui, (2013) in his findings inculcates that practices of corporate governance in the past decades have emerged a new concept of corporate social responsibility (CSR). Mohd Ghazali, (2007) explored that firm's motive is not to maximize profits but also to accelerate CSR and accountability. This means that businesses should simultaneously go hand in hand with society to operate efficiently. Numerous governance applications work collaboratively in stimulating societal and environmental practices creating a relation between substitutes and complement framework of governance and its role in stimulating CSR, correspondingly discussing the marginal effect on these relations (Oh et al., 2018). Lawmakers have also considerably comprehended that speedy development and growth in an economy is caused by extraordinary growth in the industry, along with a rapid increase in urbanization, which has ultimately fetched challenges, present in the environment. On the contrary, it has been criticized that socio-economic activities become costly for an organization and devalues the performance of the firm. Scholars in Pakistan have discussed and concluded that organizations consisting of slack resources because of sound performance can generously liquidate their funds for non-economic activities, in other words, to spend on societal well-being (Butt & Butt, 2016a).

Asamoah & Godfried, (2019) have explored in their studies and discussed the utilization of slack resources to find a positive relation between firm performance and CSR in Ghana. Hence, we aim to fill the gap and have tried to explore the mediating role of firm performance between corporate governance and CSR concerning slack resource theory and good management theory. This study contemplates CG impact on firm performance to CSR activities in Pakistan, taking new combination of variables which are not taken earlier.

Corporate Governance Theories

In this study, the number of past corporate governance theories discussed to cover the area comprehensively, these theories are the following;

Slack Resource Theory

This theory explains that the company will execute non-economic activities if it has ample resources. A firm with sound operations will eventually have a good amount of slack resources to finance corporate social activities (Buchholtz et al., 1999). Waddock & Graves, (1997) have also given their views regarding slack resources that the sound performance of a company will financially sprout slack resources that will encourage a firm to serve the community and society as a whole. Firms that serve society get a competitive edge and advantage (Miles & Covin, 2000; McGuire et al., 1988).

Good Management Theory

McGuire et al., (1988) and Donaldson, (1995) have supplemented this theory which expounds that a firm should make efforts to gratify its external investors without presuming its financial position to gain value and image. This theory motivates the management of a company to strive for the competitive advantage which will finally fortify the performance of the firm. Miles & Covin, (2000) has further elaborated that social activities performed is a way to exaggerate and satisfy stakeholders. Waddock & Graves, (1997); McGuire et al., (1988) have empirically supported this theory that it creates a healthy relationship between management, shareholders, stakeholders, and society as a whole.

For providing comprehensive coverage of existing literature, significant studies of several pieces of research are portrayed below explaining the key findings of the studies using Corporate Governance, Firm Performance and Corporate Social Responsibility dimensions with different relationship and combinations, this meta-inference would provide a systematically understanding on the corporate governance with many dimensions.

Table-01: Corporate Governance Dimensions

Author & Year	Corporate Governance Dimensions
(Sharif & Rashid, 2014)	Board size, non-executive directors, and foreign directors.
(Roy, 2014)	Audit considerations, boards committees, ownership and capital structure, Directors
(Majeed et al., 2015)	Independent and foreign directors, women directors, the board size, ownership concentration, and institutional ownership
(Hossain et al., 2016)	Board size, board composition, and ownership structure.
(Gul et al., 2017)	Board composition and ownership structure.
(Kabir & Thai, 2017)	Board size and independence, foreign and state ownership
(G. & Kabra, 2017)	Board size, CEO duality, domestic and foreign institutional ownership.
(Su & Sauerwald, 2018)	Board size, independence of the board, CEO duality, and Governance Index.

(Kiranmai & Mishra, 2019)	Board size and age, board meetings, board committees, board composition, independent directors, and gender diversity.
(Pareek et al., 2019)	Board age and size and independence of the board.
(Karim et al., 2019)	Board size, board independence, and board diversity.

Table-02. Organization Performance Dimensions

Author & Year	Organization Performance Dimensions
(Ayuso et al., 2007)	Return on Equity (ROE) as it measures the overall profitability of a firm.
(Aggarwal, 2013)	Return on Capital Employed (ROCE) and Profit before Tax (PBT), Return on Equity (ROE), Return on Assets (ROA).
(Roy, 2014)	Return on Asset (ROA) and Market to Book Value Ratio (MTBVR)
(Hossain et al., 2016)	Return on Assets (ROA) and Return on Equity (ROE).
(Butt & Butt, 2016b)	Return on Assets (ROA) and Return on Equity (ROE).
(Kabir & Thai, 2017)	Q and stock return (RET), Return on assets (ROA), Return on sales (ROS), and Return on equity (ROE),
(Su & Sauerwald, 2018)	Book value of long-term debt, Tobin's Q compute firm value as the sum of the market value of the firm's equity, likewise, the book value of short-term liabilities computed by total assets.
(Galbreath, 2018)	ROE is computed as net income derived by shareholders' equity.
(K. Wang et al., 2019)	ROA and ROE and Sales growth
(Asamoah & Godfried, 2019)	Return on Sales and Slack Financial Resources but a negative relationship with Return on Equity under slack resource theory and Return on Assets as well
(Pareek et al., 2019)	Return on assets (ROA) computed by using the ratio between the net income and Average Total Asset of a firm.

Table-03. Corporate Social Responsibility Dimensions

Author & Year	Corporate Social Responsibility Dimensions
(Sharma & Khanna, 2014)	Health care and environmental protection, Community welfare and development, labor practices and employee welfare, Education,
(Majeed et al., 2015)	Natural calamities, contribution to the health sector, activities for employees, the education sector, environmental related issues, and product/services statements.
(Laskar & Maji, 2016)	Product responsibility (PR) and society related (SO). The score of CSR are designed through content analysis technique, that is based on appropriate GRI framework, HR information regarding human rights and labor
(Gul et al., 2017)	Community involvement, environmental, employee information, and product and services information.
(Mattingly & Olsen, 2018)	The natural environment and human rights, employees, diversity, local communities, product quality/safety.
(Asamoah & Godfried, 2019)	Education, healthcare, environmental sustainability, infrastructural development, rural development, sponsorships, providing job opportunities, aid/relief to victims of natural disasters and calamities, donating for a noble cause, providing employee training programs, ensuring fairness in the workplace, and respecting workplace diversity.

To summarize the above findings we concluded that researchers have discussed variables with different combinations through experiments globally (Arun & Turner, 2004). Krambia-Kapardis & Psaros, (2006) further studied the evolving markets in countries such as Cyprus, Taiwan, Nigeria, and Kenya that weak governance practices result in weak performance. Arora & Bodhanwala, (2018) critically examined the relationship between corporate governance index and the performance of the firm. Although, the above relations between independent and dependent variables is positive or negative but very limited studies so far has discussed the role of corporate governance in CSR and the mediating role of organizational performance.

Theoretical Framework

Firstly, Slack Resource Theory which refers that if a firm has sound financial position so it will put in to social activities because strong financial position allows a corporation to contribute in the society as a whole by utilizing its surplus resources productively for the best interest of the society. Secondly, Good Management Theory states that a company possessing good reputation as perceived by the owners will have better financial performance that is evaluated through the market mechanism. Hence, this study fills the gap and attempts to explore CG impact on firm performance which will eventually increase CSR activities in Pakistani listed companies, taking a new combination of variables that are not taken earlier under the above-mentioned theories. Concisely, this study considers CG as an independent variable, CSR as a dependent variable, and FP mediating both the variables to explore their respective dimensions under good management and slack resource theory. It also attempts to establish that corporate governance structure should embrace healthy practices to encourage sustainable FP which will ultimately influence CSR.

This article aims to discuss various variables of corporate governance such as board size, executive directors, women directors, and non-executive directors. Whereas, corporate social responsibility variables such as healthcare, education, disaster relief, environment, and development of the community, to boost the financial performance of the firm considering return on assets under good management and slack resource theory. This refers to adopting sound management with effective allocation and utilization of resources.

The designed variables are illustrated as under and lead to the following hypothesis explained as under: *Where: (CG: Corporate Governance, FP: Financial Performance, BS: Board Size, ED: Executive Directors, NED: Non-Executive Directors WD: Woman Directors, CSR: Corporate Social Responsibility).*

Board Size (BS)

The number of directors in an organization is referred to as the size of the board. It has a positive relationship with firm performance and CSR (Aggarwal, 2013). Universally a board composed of seven directors is considered an ideal board but in Pakistan, the average number of members is 9 and often 11 members are found in Pakistani firms and financial institutions.

Executive Directors (ED)

Board members who are part of management and board simultaneously are executive directors such as when the Chairman whose job is to oversee the operations of the corporation and the CEO whose role is to deal with daily operations are performed by one person then that member is called the executive director. Thus, this creates a conflict of interest and negatively affects the firm performance because lower independence and concentration of power is witnessed (Sharma & Khanna, 2014).

Non-Executive Directors (NED)

Non-Executive Directors are also considered independent directors. According to (SECP) Securities and Exchange Commission of Pakistan, corporations must appoint at least two or one-third whichever is higher should be an independent director on board. It has been also studied that the non-executive director control and monitor management with integrity and transparency (Fama & Jensen, 1983).

Women Directors (WD)

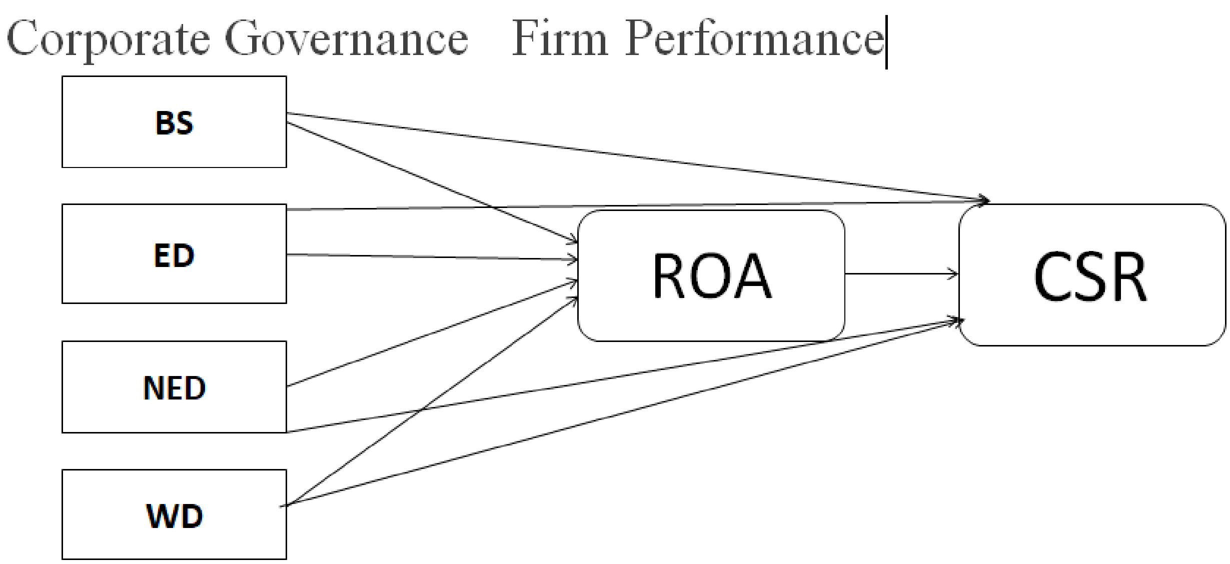
It is also mandatory by SECP under its circular No. 3 issued currently in 2019, that all listed companies should elect one female director on their board either on the upcoming election or vacancy available (if any) before the date of the election. It is also observed that the ratio of women on board will rise from 6.4pc to 14.3pc in the next three years. Moreover, theories have examined that they make better decisions, their presence reduces fraudulent activities and they boost social, economic, and financial performance too (Galbreath, 2018).

Firm Performance

The performance of the firm is measured through various accounting tools such as ROA, ROE, and ROI, etc. Profitability is a measure that enables corporations to promote social and economic activities. Moreover, theories have also suggested that firm performance positively relates to CG and CSR (Majeed et al., 2015) but this study emphasizes on Return on Assets (ROA) as a tool to measure the firm performance.

Corporate Social Responsibility (CSR)

CSR sustains the performance of the corporations and helps to generate a healthy environment inside and outside the firm. SECP also issued guidelines for Pakistani companies in the year 2009, regarding CSR disclosure that companies should report CSR in their annual director's report presented to shareholders. Moreover, the charity or donations which companies allocate for CSR has a positive impact on the society as a whole.



Hypothesis Development

Board Size and Financial Performance (ROA)

Studies have discussed that the size of the board plays an essential role and influences the firm positively because the effectiveness of governance is dependent on how the board is structured. It is universally accepted that the ideal board size should be seven but the average board size in Pakistan is nine. Therefore, it is clear that a small board is far good than a bigger board such as seven to eight members to perform proficiently because it is helpful for the firm having CEO duality to monitor, communicate and evaluate firm easily (Jensen & Ruback, 2002). However, large independent board prospers where CEO duality (CEO also performing role of chairman) is avoided, as it reduces agency problem and cost. Moreover, supporting Resource Dependency and Agency Theory it is argued that a bigger board comprising executive and non-executive directors possess a diverse set of skills (Kalsie & Shrivastav, 2016). On the contrary, intellectuals (Coles et al., 2008) have found that small and independent boards are used for making sound decisions and worthwhile strategic planning in corporations (Pearce & Zahra, 1992).

Furthermore, it is believed by the investors of the organizations that with large board size, the structure of financial accounting is also monitored efficiently and enables firms to lower borrowing costs (Anderson et al., 2004). However, it is found that company improves with increasing board size to an extent but after that limit input by the additional member would not gain much to an organization (Jackling & Johl, 2009). Therefore, with respect to Pakistani companies it can be hypothesized that board with proficiency and competency will foster its firm performance and leads to first hypotheses:

H1: There is a positive relationship between board size and financial performance.

Executive Directors and Financial Performance (ROA)

The employees of the organizations playing the role of board members and also responsible for management functions are called executive directors. In other words, they play a crucial role in day-to-day business operations. Governance and nominating committee select topnotch people from management to contribute as executive directors and become part of the board. They are important in an organization because they assure the flow of symmetric information to the rest of the board members. On the contrary, researchers have argued considering agency theory that CEO and chairman should be separated as they tend to raise conflict of interest and results in negative relation (N. Khan & Siddiqua, 2015). Moreover, it has been examined in several studies that there is opposite relation between executives that comprise of CEO and Chairman as one person and the performance of the firm (Brickley et al., 1997). Goyal & Park, (2002); Yermack, (1996) have evidenced the negative relation of executive directors on board. Keeping in view the above discussion this paper aims to test and frames the following hypothesis:

H2: There is a positive relationship between the executive director and financial performance.

Non-Executive Directors and Financial Performance (ROA)

Non-executive directors are those members of the board who do not have any financial or economic interest in the company (Coffey & Wang, 1998). Briefly, they do not involve in the daily operations of a company. The independence of the board greatly influences the performance of the firm. They have different values, time horizons, and incentives whereas executive directors are concerned to achieve short-term economic goals. Similarly, it is also argued that independent directors strengthen the financial position of the firm (Kabir & Thai, 2017). Scholars have also discussed that non-executive directors are strong stakeholder-oriented because their backgrounds are diversified and have less financial interests (J. Wang & Dewhirst, 1992). They also cater to the needs of stakeholders, shareholders, and entrenched managers (Michelon & Parbonetti, 2012). Thus, non-executive directors or independent directors are expected to be proficient and believed that they possess good monitoring and evaluating capability which further leads to our third hypothesis as:

H3: There is a positive relationship between a non-executive director and corporate social responsibility.

Women directors and Financial Performance (ROA)

Women directors in an organization also play a crucial role. Discrimination among the genders and not giving equal employment opportunity to women on board would have a negative impact to an extent. Thus, many studies are conducted to make aware that a gender diversified board will lead to innovation, profitability, growth, and enhance measures to boost employee morale and internal control of an organization. Jyothi & Mangalagiri, (2019) have evidenced that women onboard contribute sound practices which leads to better financial performance. Adams & Ferreira, (2009) examined in the context of the US using multiple regression models, that women directors have substantially contributed to board input and outputs and they also maintain well records of their presence on board than men. Hence, with the discussion above it is clear that women representation contributes well for an organization and proposes the fourth hypothesis as:

H4: There is a positive relationship between women directors and financial performance.

Board Size and Corporate Social Responsibility

Several studies have contributed that it is the responsibility of the board that its behaviour is brought into line ensuring that the board complies with the legal framework. Moreover, it is credible and does timely social disclosures (Fama & Jensen, 1983). Similarly, it has been found that the size of the board plays a significant role in firm performance and CSR practices because it has been discussed several times that surplus resources enable a firm to practice environmental and social disclosures. Similarly, it is also evidenced that board composition stimulates social advice (Buniamin et al., 2008). Thus considering the above discussion this study leads to a hypothesis:

H5: There is a positive relationship between board size and corporate social responsibility.

Executive directors and Corporate Social Responsibility

This study is conducted in the context of Pakistan where normally executive directors are CEO or chairman or both in the boardroom. This refers that there is a duality in the position of the board members. Similarly, considering this factor it is clear that executive directors can flow asymmetry information i.e. can reveal only favorable information in the boardroom and disclose negative information to its investors which might deter the organization as a whole (Chau & Gray, 2010). It is also argued several times that executive directors playing the role of CEO reduce the capability to monitor proficiently which in return is harmful to disclosure's quality (Fama & Jensen, 1983; Forker, 1992). Contrary, contemplating the literature before analyzing the results, this study aims to find out the positive relationship between the executive director and CSR which might or not oppose the view of this study. Hence, this study aims to test a hypothesis:

H6: There is a positive relationship between the executive director and corporate social responsibility.

Non-executive directors and Corporate Social Responsibility

It has been evidenced that independent directors on the board have a significant effect on social activities (Post et al., 2011). Similarly, scholars also suggest that they actively participate in ethical issues of the companies and ensure effective CSR disclosure (Ibrahim, Howard, & Angelidis, 2003; Htay, Rashid, Adnan, & Meera, 2012). Thus, these views conclude that a board with more independent representatives would lead to better performance avoiding conflict of interest and assuring that resources are best utilized. On the other hand, critics have argued that CSR leads to clashes between minority and controlling owners of the company which ultimately cut down wealth. Hence, considering the above findings and views of different authors, this study proposes the following hypothesis:

H7: There is a positive relationship between a non-executive director and corporate social responsibility.

Women directors and Corporate Social Responsibility

Studies have evidenced the empirical benefits of social activities. It is also proved in several studies that CSR is positively associated with the performance of the firm that also enables a firm to efficiently access valuable resources (Waddock & Graves, 1997). It attracts and retains quality employees and allows better marketing strategies for goods and services (Greening & Turban, 2000). Thus, contemplating empirical evidence this study aims to investigate the positive relation of women directors with CSR performance. (Coffey & Wang, 1998) have examined that a diversified board is positively associated with CSR reporting and thus, convinces the board to be accountable for the company's stakeholders. Hence, we can conclude that women play an effective role in CSR, and thus, this leads to another hypothesis:

H8: There is a positive relationship between women directors and corporate social responsibility.

Mediation of Firm Performance (ROA) on Corporate Governance and Corporate Social Responsibility

Studies that examine CSR and FP empirically have found a relatively widespread link (Hossain et al., 2016). Moreover, many scholars have also reported a positive relationship between the two variables (Griffin & Mahon, 1997). Moreover, companies get advantages from CSR practices through acquiring more customers, congenial workplaces, and assuring employees for equal rights which will increase the productivity and performance of the firm. Dawkins & Lewis, (2003) explains that CSR disclosures and practices enable the firm to provide quality product and invest in the development of the community which is beneficial for the company in the long run. Hence, this study aims to explore empirical evidence under slack resource theory and good management theory that stable firms having slack resources and consisting proficient human resource in their governance framework will allocate its resources in a way that creates goodwill and value to the firm through financing health care, education and for the community development as a whole.

Hence, from the foregoing discussion this study observed apparent conflicting results on the relationship between corporate governance, firm performance based on Return on Asset (ROA) and Corporate Social Responsibility (CSR). The final decision to employ CSR activities is the strategic decision taken by the board of the organization. Therefore, our argument is on the frail governance system in Pakistan, organization-specific practices playing mediating role in the CG-CSR relationship leading to the ninth hypothesis:

H9: Firm performance (ROA) mediates with corporate governance and corporate social responsibility.

Methodology

3.1 Research design

This section includes a selection of the target population, sample size, and sampling technique. Further, it covers the instruments used and procedures adopted to research secondary data. Finally, it is concluded with interpretation, analysis, and learning outcomes of the data collected using the mono method which addresses the substantial role of corporate governance on firm performance which enhances social responsibility in Pakistan.

The research design of a study comprises strategies, methods, and investigation methods for analyzing the research problem. This research is designed and proposed using the mono method to explicate that research is conducted to analyze the role of corporate governance in CSR: Mediating role of firm performance. Thus, this study includes corporate governance elements such as board size (BS), executive directors (ED), non-executive directors (NED), and women directors (WD) as independent variables. Corporate social responsibility (CSR) as a dependent variable and return on asset (ROA) element of firm performance plays a mediating role. Time series data from 2015 to 2019 is adopted from the company's websites and annual reports. The Time Horizon of this study is the longest period for better result analysis which describes that this is a restructured and updated research.

3.2 Population and sample

The listed companies of the PSX-100 index are selected as the target population. Moreover, the largest twenty-two (22) companies are selected as a sample to present listed companies of PSX. The time frame of data was 5 years from 2015 to 2019 to analyze the cross-sectional effect. The companies are from different sectors like cement, fertilizer, textile, pharmaceutical, commercial banks, and the automobile sector.

Data collection

This study includes data extracted from annual reports of the companies and the PSX website. In case of non-availability of data so the annual reports were downloaded from the web sites of companies. Procedure to collect CSR disclosure was done through published annual reports or the company's sustainability report as these reports were found to be the main medium for the disclosure of CSR practices because to stakeholders choosing annual reports is a common and accepted document created regularly by the Pakistani firms.

Results & Discussions

The data extracted from the annual reports of the companies was initially calculated as shown below in (Table 4). Thus, this enabled to test the hypothesis and find the results. This study analyzed data by using E-views and employed Panel Least Squares to demonstrate the results. The constructed model first evaluated the Panel unit root test using the Levin, Lin & Chu t* method to check the stationery of the data which implies that data is homogeneous that is values do not have more variation. This test is done on level for each variable except ED that resulted significant at 1st Difference as shown in (Table 5):

Table 4. Variable Description and measurement

Variables	Description	Measurement
Board Size	Number of directors on board	Sum of board members
Executive Directors	Directors part of board and management	The number of Executive Directors divided by board size %
Non-Executive Directors	Directors part of board only or independent directors	The number of Non-Executive Directors divided by board size %
Women Directors	Gender diversity on board	The number of Women Directors divided by board size %
Firm performance	Profitability of companies	Return on Assets (ROA)

Corporate Social Responsibility	Social and environmental activities for social well-being	Amount of donation divided by earning before tax %

Further, this study has measured the direct effect of the dependent variable, independent variables,

Table 5. Levin Test

Variables	**Statistic**	**Prob.****	**Decision**	**Unit Root Test**
BS	-1.98889	0.0234	Stationery	Level
ED	-9.59287	0.0000	Stationery	1st Difference
NED	-2.66973	0.0038	Stationery	Level
WD	-3.07887	0.0010	Stationery	Level
ROA	-5.92051	0.0000	Stationery	Level
CSR	-107.198	0.0000	Stationery	Level

*** All other tests assume asymptotic normality, and probabilities for Fisher tests are computed using an asymptotic Chi-square distribution*

mediating effect between variables, random and fixed effect to test the regression, and finally the correlation between corporate governance components, firm performance, and corporate social responsibility. Previously, studies were conducted using multivariate regression to find the impact of corporate governance on firm performance (Associate Professor, Dept. of Accounting and Information Systems, University of Dhaka, Bangladesh et al., 2018). Whereas, to test the impact of corporate governance on firm performance and CSR researchers have used models such as among ordinary least square (OLS), random effect model (REM), and fixed-effect model (FEM) through estimating restricted values of F test, Hausman test and Lagrange multiplier test (Pareek et al., 2019). This study attempts to test the direct effect of the data using the Panel Least Squares (PLS) model of corporate governance components BS, ED, NED, and WD individually with firm performance element ROA and CSR. Moreover, the relation of ROA with CSR to test the hypothesis discussed above as shown in (Table 6):

Table 6. Direct Effect

Variables	T-Statistic	Prob.	Decision
BS→ROA	13.24521	0.0000	Supported

ED→ROA	11.13419	0.0000	Supported
NED→ROA	13.39561	0.0000	Supported
WD→ROA	9.356106	0.0000	Supported
BS→CSR	2.911841	0.0044	Supported
ED→CSR	3.164513	0.0020	Supported
NED→CSR	2.837811	0.0054	Supported
WD→CSR	3.244071	0.0016	Supported

Scholars have tested the significance of corporate governance playing a mediating role between CSR and corporate social firm performance (CSF) (Hossain et al., 2016). This study exhibits a CG effect on CSR where firm performance plays a mediating role. After executing the test to find a direct relation between variables individually hence, the results in the table above reveal that corporate governance elements have a direct effect on ROA which supports H1, H2, H3, and H4 as the t-values ≥ 1.96 and p-values ≤ 0.05. Similarly, the results also bring to light that corporate governance elements also show a direct effect on CSR which again supports H5, H6, H7, and H8. Therefore, the ultimate decision supports the hypothesis and the relation among the variables.

This research put forward the concept that corporate governance effects CSR when firm performance plays a mediating role (Baron & Kenny, 1986). The results of the data conclude that there is partial mediation between the proposed relations of the variables but there is no mediation between NED, firm performance, and CSR as figured out in (Table 7):

Table 7. Mediation Effect

Variables	T-Statistic	Prob.	Decision
BS→ROA→CSR	1.981159	0.0501	Partial Mediation
ED→ROA→CSR	2.294255	0.0237	Partial Mediation
NED→ROA→CSR	1.868151	0.0645	No Mediation
WD→ROA→CSR	2.411267	0.0176	Partial Mediation

The above table summarizes that corporate governance components have a direct relation with CSR and there is partial mediation of ROA with CG and CSR as t-values ≥ 1.96 and p-values ≤ 0.05 but

ROA has no mediation between NED and CSR as it opposes the condition of t-values and p-values. Therefore, the model represents partial mediation among the variables.

Conclusion

This study has delved into the mediating effect of firm performance on corporate governance components and CSR. Though it supports a direct relationship between variables, it exhibits partial mediation in Pakistan using the above variables.

To conclude this study explores that there is a direct relation between the proposed combinations of variables but as per the study there is partial mediation among them. This is so because firms under Slack Resource Theory suggest that surplus resources will enable it to spend on social activities. In Pakistan, SECP has made it mandatory that firms should allocate 1% or 2 % of their earnings before tax to social activities which in return will enhance the corporate image and performance of the firm.

Thus, the results of the study support the proposed hypothesis and also suggest that under Good Management Theory governance should be more independent to take neutral decisions for the organization and society as a whole. Practically it is not possible for the organizations to spend their resources in social activities when suffering losses but in Pakistan firms serve the society for sustainability because donations are tax-deductible and disclose less earning after-tax that eventually curtails opportunity for investor and puts downward pressure on the growth of the company.

Limitation

This study limited its scope to secondary data therefore results were true and unalterable which eventually resulted in partial mediation. Therefore, it is suggested that both deductive and inductive approaches can be used in the future. The number of years can also be increased for future studies to evaluate the mediation effect.

Future Scope

Since this study has focused few factors of the proposed variables in the model and also took limited companies to evaluate the mediating effect, therefore, it is suggested that more factors like the company working environment, employee job satisfaction, and firms financing and investing capabilities should also be considered. Moreover, different modes of collecting data like interviews should also be conducted to know the real scenario.

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