

Corporate Social Responsibility, Corporate Governance, CEO Characteristics and Corporate Performance: Evidence from Indian Companies

Abstract

This study attempts to examine the impact of corporate social responsibility (CSR), corporate governance (CG), and CEO characteristics on corporate performance of listed companies in India during the period 2010-11 to 2020-21. The dynamic panel data model and more specifically, system generalized method moments technique is used to examine these issues. The trend analysis reveals that firms with higher CSR activities and greater corporate governance score consistently outperform the firms having lesser CSR activities and low corporate governance score. The econometric results suggest that increase in CSR expenditure enhances the corporate performance. The performance of the companies having higher corporate social responsibility activities is not sensitive to firm size, market risk and firm age. The performance of group affiliated firms is less sensitive to corporate social responsibility and the influence of CSR is more for standalone firms. The study also reveals that the impact of CSR is more for the companies following mandatory CSR requirements than their counterparts. The influence of CSR on performance also changes across the size of the companies. The impact is highest for small firms followed by the medium and large firms. Corporate governance mechanisms such as external audit quality, board size, board independence, board meetings, women on the board and CEO duality play a significant role in determining the performance of companies in India. The results are varying across the sub-samples classified on the basis of group affiliation, firm size, and economic policy uncertainty. The overall corporate governance score positively affects financial performance and it is consistent across the sub-samples. The influence of corporate governance is positive across the types of companies classified on the basis of group affiliation, firm size and economic policy uncertainty. However, its impact is more for standalone companies, small companies and in the period of high economic policy uncertainty than their counterparts. Corporate governance reduces the influence of other firm specific factors such as leverage, liquidity, tangibility and size of the firm on firm performance. With reference to CEO characteristics, this study finds that the influence of the CEO age, financial and technical educational backgrounds of CEO, and CEO ethnicity on firm performance is positive and the effect CEO tenure on performance is negative. The influence of CEO characteristics on firm performance varies across the sub-samples. The findings of this study provide key implications for policymakers, investors, and corporate managers. Policymakers ought to strengthen legislative frameworks to improve CSR and corporate governance transparency, therefore promoting accountability and sustainable business practices. Investors may make rational choices by prioritizing companies with robust CSR and governance frameworks, due to their beneficial effects on performance and resilience. Corporate managers should integrate CSR strategically, especially in standalone and small firms, leveraging it as a competitive advantage. Promoting governance mechanisms, including board independence and audit quality, can improve financial performance. Additionally, firms should consider CEO characteristics such as age, competence, and ethnicity during executive hiring and leadership development to foster sustained performance.

Keywords: Corporate performance, corporate social responsibility, corporate governance, CEO characteristics, business group affiliation, firm size, economic policy uncertainty, system generalized method of moments.