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Research paper

Financial Performance: The Role of Corporate Governance and CSR Across Firm Sizes and Industries in India

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Abstract

Present research explores the complex interplay between "Corporate Governance (CG)", "Corporate Social Responsibility (CSR)" as well as "Corporate Financial Performance (CFP)" in Indian firms with a specific focus on the moderating roles of firm size and industry type. Recognizing the increasing stakeholder expectations and regulatory pressures, the research investigates whether CG and CSR—individually and interactively enhance financial outcomes. Drawing on agency and stakeholder theories, the study develops CG and CSR indices from the annual report disclosures of 55 companies across various industries and a composite financial performance index (CFPI) through factor analysis. Findings reveal that while CG alone does not significantly impact CFP, CSR represents a strong positive association and partially mediates the CG-CFP relationship. The analysis reveals that CSR's impact is more pronounced in mid-sized firms and select industries such as FMCG and automobile. These findings have important implications for accounting practices, suggesting that CG mechanisms enhance financial transparency indirectly through CSR pathways. The study contributes to emerging market literature by proposing an integrated model of CG–CSR–CFP and recommending alignment with evolving ESG and financial reporting standards.

Keywords: *Corporate Governance; Corporate Social Responsibility; Factor Analysis; Regression Analysis; Financial Performance.*

1. Introduction

CG and CSR have emerged as major business pillars that influence the way corporations engage, perform, and relate to various stakeholders. While CG covers internal processes, operating procedures, ethics, and transparency, CSR goes further in terms of environment and accountability. This pressure is due to the fact that investors, regulators, and consumers have called for improvement in CG structures and social responsibility measures that firms put in place knowing that these measures will lead to better CFP. However, its effectiveness regarding the role of CG and CSR as well as how the two interact, independently or combined, to impact CFP is still controversial.

Business management, specifically CG, is normally associated with the concept of holding managers accountable in an organization to minimize agency costs. The elements of governance, comprising an independent board, disclosure, and risk management, are expected to increase investors' confidence and resource utilization efficiency. According to agency theory and stakeholder theory, businesses with good CG practices are expected to be the least risky and are likely to consistently perform due to appropriate management decisions. However, earlier empirical research concerning the direct relationship between the two studies revealed mixed outcomes, with studies pointing to a positive association, while others found no association between the two factors. Such discrepancies provide insight into whether CG is key to CFP.

On the other hand, CSR has evolved to be widely accepted by most firms as a strategic stakeholder rather than a marginal activity in the corporate world. Business organizations that constantly participate in philanthropic activities, including environmental conservation, employees, and society at large, are considered ethical and sustainable in the long run. This means that by incorporating CSR into the firm's operations, it complies with stakeholder expectations, and thus, there are possible benefits such as improved brand image, customer satisfaction, and more investor appeal. As per the resource-based view of the firm, CSR may offer benefits by increasing the extent of innovation while lowering risk to the organisational reputation. Companies that invest enough money in CSR have better and friendlier relations with government agencies, hence enjoying less on the cost of compliance and supporting relationship among CSR as well as CFP.

Although the theoretical framework recognizes CG and CSR as significant for business success, more research is required to establish their roles and relationships. Although governance mechanisms provide the boundaries of firms, CSR activities can be a reinforcing factor that reduces the effects of governance on CFP. Current research analyzes the individual and interaction among CG as well as CSR about the CFP of various firms. Current research employs content analysis of annual reports to create governance as well as CSR indices, and employs a factor analysis and regression modeling approach to offer methodological evidence on how firms can further the idea of CG and social responsibility for corporate advantage.

Due to variations in industries and firm size, the analysis investigates the moderating effect of industries as well as firm size on governance and CSR. While previous research works have worked on the variables of governance and CSR, current research seeks to delve deeper by using firm size and industry characteristics as contingent variables. Current research contributes to the discussion of CFP drivers by identifying specific contexts in which governance or CSR is stronger. With expanding business conditions and increased demands for compliance and responsibility, the results presented in current research can provide useful recommendations on how to use both CG and CSR for the sake of sustainable CFP enhancement.

From an accounting perspective, these developments are particularly significant. Effective CG is not only a matter of strategic oversight but is also integral to financial transparency, internal control, and compliance with disclosure norms under frameworks like the Companies Act, 2013, and SEBI regulations. Simultaneously, CSR reporting is becoming increasingly institutionalized within ESG frameworks and international standards such as GRI and IFRS S1/S2. This research contributes to accounting literature by examining how CG and CSR interactively influence financial performance and disclosure practices, providing insights into how firms can align value creation with accountability and stakeholder expectations.

2. Literature review

The literature on CG, CSR, and CFP is extensive, and there is still controversy. A positive link has been evidenced in some cases; however, there are views that state that it depends on extra and intramural conditions. The mutual relationship between governance, CSR & CFP was evident, and firms still incorporate social and ethical functions as critical strategic management factors.

Company management has been seen, inter alia, as a device that regulates company transparency, minimizes the agency problem, and increases investors' confidence. Ullah et al. (2024) conducted a study on Asian emerging economies to elucidate the relationship between CG and financial stability, as well as its impact on organizational performance in a depressed economic environment. The findings indicate that robust CG practices significantly enhance financial stability. Nonetheless, the relationship between governance as well as on the other hand the various organizational CFP indicators has not yielded clear results. Using a meta-analysis, Istan (2024) pointed out that, although good governance positively influences corporate value, CFP moderates the results rather than mediating them. This implies that governance may not necessarily yield financial returns where other strategic components are not added. Yuliusman and Kusuma (2020) also support the argument that governance has a major mediating part in the increasing trend of CSR disclosure, leading to firm value upgrading and other financial implications.

There is significant agreement that CSR influences CFP and is a useful approach for gaining advantage and profitability in the long run. Singh et al. (2024) researched Tata corporations, revealing that CSR initiatives boost the financial performance of organizations, hence substantiating the assertion that corporations prioritizing social responsibility foster stronger relationships with shareholders and improve brand image. Similarly, Coelho et al. (2023) conducted another systematic study on the same subject, demonstrating that CSR positively influences CFP and mitigates operating risk for socially responsible enterprises.

Saeidi et al. (2015) also noted that competitive advantage, reputation as well and customer satisfaction are essential mediators in linking CSR to CFP; thus, firms need to integrate CSR activities with value creation strategies.

Accounts indicate that CSR's impact on CFP has been dependent on industry as well as geographical region. The study by Zhu et al. (2016), which focuses on Chinese state-owned enterprises, also revealed that CSR practices enhance the performance of enterprises, especially in sectors where the government's influence is common. Similarly, Zahid et al. acknowledge that green HRM practices relate to environmental and CFP, claiming that organisational sustainability initiatives can lead to improved economic performance. Ameer and Othman (2012) discovered that companies worldwide with thorough sustainability policies reported higher CFP than other companies, thus supporting the business consequences of responsible behavioral patterns.

Furthermore, in accounting literature, CG has been closely associated with financial transparency, audit quality, and reduction of earnings manipulation (Aggarwal, 2023; Dechow et al., 2010). Strong governance mechanisms reduce information asymmetry and contribute to reliable financial reporting. Similarly, CSR disclosures are increasingly governed by non-financial reporting frameworks, and their integration into mainstream financial reporting is a key area of interest for accounting researchers (Platonova et al., 2024; Kim et al., 2023). By incorporating these aspects, the present study bridges CG and CSR practices with their direct and indirect impact on financial performance, adding relevance to both finance and accounting disciplines.

Furthermore, prior literature presents conflicting evidence—some studies support CG's positive influence on financial outcomes, while others highlight CSR as the dominant factor in sustaining profitability. This inconsistency reveals a theoretical gap that the present study partially addresses by introducing a moderated framework. In the current literature, CSR works as a mediator between the governance level & financial performance. Brammer et al. (2006) also affirmatively state that there has been an association between corporate social performance and stock returns, indicating that investors have a positive perception of companies engaging in CSR. According to Istan (2024), CSR enhances the governance-performance association since it increases stakeholder confidence and minimizes reputational issues. This concurs with Saeidi et al. (2015), who showed that an increase in CFP is caused by CSR as much as it leads to better positioning and stakeholder management.

However, there are some limitations when it comes to establishing a full correlation between CG and CSR and the actual results on financial rates. For example, Ullah et al. (2024) revealed that mere changes in governance structures do not end bestowment of financial success, while Singh et al. (2024) show that the effectiveness of CSR policies depends on industries and firm contextual factors. With the progress of research, there is a need to conduct an industry and cross-country analysis of the influence of governance as well as CSR.

2.1. Research gap

Although much empirical work has been conducted on CG with reference to CSR, questions remain regarding the significance of these two factors for determining CFP, particularly in the Indian context. Most of these have been explored individually, although some have asserted that governance improves financial position and stability, while others contend that CSR contributes more to sustainable profitability than governance does. As such, there is a comparatively lenient focus on the relationship between governance and CSR and their impact on CFP. Existing literature lacks research focusing on the differences in each industry and firm size for these relationships, which presumably may differ, and recent research highlights that the effectiveness of CG and CSR can differ depending on business settings. Current research fills these gaps by developing a linking model of governance, CSR, and CFP about industry and firm size.

2.2. Conceptual framework

There are two theories on which the effects of CG and CSR on CFP can be based: Agency Theory and Stakeholder Theory.
Agency Theory asserts that it is possible for a situation in which the managers of the company disregard the shareholders' interest to further their self-interest. To prevent such conflicts, firms use CG tools such as executive monitoring, incentives, and boards, which have a positive effect on organizational performance through efficiency and responsibility. It is therefore crucial that there be strong CG mechanisms to prevent the distance between the board of directors and management from distorting the returns on shareholders 'investment.''
Stakeholder Theory, on the other hand, posits that for a business organization to succeed, factors that deserve consideration are the stakeholders, not just shareholders, customers, suppliers, regulatory agencies, and society at large. Proponents of this perspective state that implementing CSR, such as ethical conduct, employee interests, and environmental conservation, helps businesses cultivate good relationships with stakeholders. This kind of engagement can lead to steady financial returns from developing customers' goodwill, employee morale and satisfaction, and legal acknowledgement, which have an impact on CFP.
As guided by these theories, CG and CSR have been measured as two independent variables, while CFP forms a dependent variable. CFP is measured by accounting ratios such as ROA, ROE, PAT, or market ratios such as Tobin's Q, stock returns. Firm size and industry type are also included as control variables because CSR practices and governance structures could differ from firm to firm.
Another way through which CSR is examined is to mediate the relationship between governance and CFP. This is based on the argument that firms with a good CG system can address CSR issues that have the potential to improve financial returns. In other words, the existence of clearly established governance structures and an applied impact on a company's growth and development could help the company gain a competitive business advantage, which has a positive implication on its CFP.

2.3. Hypotheses

Based on this conceptual framework, the following hypotheses are proposed:

- H_1: Corporate governance has a significant positive impact on corporate financial performance.
- H_2: Corporate social responsibility has a significant positive impact on corporate financial performance.
- H_3: CSR mediates the relationship between corporate governance and corporate financial performance.
- H_4: The impact of corporate governance on corporate financial performance varies based on firm size and industry type.
- H_5: The impact of corporate social responsibility on corporate financial performance varies based on firm size and industry type.

3. Methods

The data for the current research were sourced from PROWESS, a database that contains various financial information on both listed and non-listed firms in the Indian economy. Information related to CG and CSR was gathered from annual reports to ensure data reliability in the assessment. For the sample selection, 55 companies from various sectors were chosen based on predefined criteria. These companies were selected after confirming that they consistently disclosed their financial and governance information, enabling a comprehensive analysis of the correlation between CG, CSR, and CFP.
To achieve this aim, indices of CG and CSR were developed based on the scorecard in adherence to several governance and social responsibility measures. The CGI was based on the key principles of governance, such as the efficiency of the boards, compliance with laws, and protection of the stakeholders' rights. The CSR Index was articulated by considering the type and amount of CSR undertaken and commitment embedded as per Schedule VII of the Companies Act, in addition to the ratio of profits dedicated to CSR spending. These indices enable the evaluation of standards of governance as well as social responsibilities practiced in firms to compare them.
To identify whether the financial variables were distributed normally, a normality test was performed before statistical analyses. The source data normality was tested using two-thirds of the Kolmogorov-Smirnov and Shapiro-Wilk tests. This is because many variables of a financial nature tend to be skewed by factors such as the size and profitability of the firm, so necessary transformations were made. Some of the data was normalized using the inverse distribution function (IDF) normal transformation before it could be used, where normality was assumed in the statistical analyses
To reduce dimensionality and examine factors that cause variations in CFP, a factor analysis test was employed. This technique was adopted because it enables the definition of factors that can explain most of the variation in the observed financial ratios. Therefore, for determining sampling adequacy as well as suitability of data for factor analysis, 2 tests, namely, the "Kaiser-Meyer-Olkin (KMO)" test as well as "Bartlett's test" of sphericity, were utilized. This task aids in the differentiation of account-based and market-based measures of CFP, resulting in the development of a composite financial performance index (CFPI) from the factor weight score.
Thus, the association between CG, CSR, and CFP was examined using regression analysis. Thus, in a multiple regression test, CFP was taken as the dependent variable, while the independent variables were governance and CSR indices, firm size, firm age, and debt-equity ratio. The Durbin-Watson statistic was computed to test for autocorrelation while checking for Multicollinearity among the predictors. The VIF vectors were calculated. This is because the method allows for the determination of the significance of the relationship between the independent as well as dependent variables, while simultaneously factoring for possible influences from other variables.
Finally, the last set of tests involved industry-wise and firm size tests for examining the differences in the effects of CG and CSR on CFP, where industry as well as size of the firms were used as moderating variables. These were done using company size, where the firms were grouped into small, medium, and large firms; and industry type, which was used to ascertain the effects of governance and CSR on industries. This allowed for a more appropriate breakdown of groups concerning heterogeneity in governance and financial results and did not bias results by general patterns that might be seen in a homogenous approach to industries and sizes of firms.
This research strategy involves content analysis of the variables defined for CG, CSR, and CFP. Statistical transformations, factor extraction, and regression analyses provide a strong framework for empirically exploring relationships between CG, CSR & CFP.

4. Results and discussion

4.1. Tests of normality

The "Kolmogorov–Smirnov" as well as "Shapiro-Wilk" tests had been employed to test the distribution of financial variables. As depicted in Table 1, before transformation, the results further suggest that all the financial variables suffered from non-normality of the data ($p < 0.05$). As seen from this distribution technique, normality of all four variables has been established apart from DER, which still deviates from normal distribution after having gone through the normality tests; this is the reason why normality after applying the IDF normal transformation was only tested on three out of the four variables, namely CR, ACR, and ROE.

Table 1: Tests of Normality Before and After Transformation

Variable	Kolmogorov-Smirnov (p-value) Before	Shapiro-Wilk (p-value) Before	Kolmogorov-Smirnov (p-value) After	Shapiro-Wilk (p-value) After
SIZE	0.000	0.000	0.200*	1.000
Debt-Equity Ratio (DER)	0.000	0.000	0.000	0.000
AGE	0.000	0.000	0.200*	0.997
Profit After Tax (PAT)	0.000	0.000	0.200*	1.000
Return on Equity (ROE)	0.000	0.000	0.200*	1.000
Return on Capital Employed (ROCE)	0.000	0.000	0.200*	1.000
Return on Assets (ROA)	0.000	0.000	0.200*	1.000
Market Capitalization (LnM-cap)	0.000	0.000	0.200*	1.000

The distributions of the transformer's financial variables before and after the operation are presented in the histogram in Fig. 1. The input data were skewed before transformation, whereas they were not skewed after transformation.

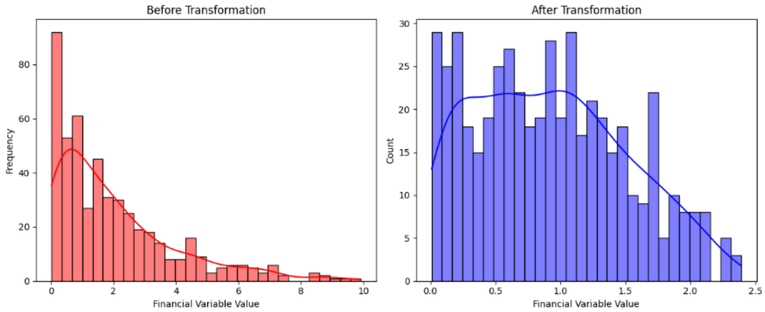

Fig. 1: Histogram of Financial Variables before Transformation and After Transformation.

The fig1 presents the distribution of the financial variables during the period with the actual values and after transformation to a normal distribution.

4.2. Factor analysis for financial performance indicators

For analyzing CFP measures, the factor analysis technique was used to identify the traits within the measures. For Kaiser-Meyer-Olaken test, the value of 0.736 for KMO as well as "Bartlett's test" of sphericity, has been 1449,81; $p<0.05$.

Table 2: KMO and Bartlett's Test for Financial Performance Indicators

Test	Value
KMO Measure of Sampling Adequacy	0.760
Bartlett's Test of Sphericity (Chi-Square)	3270.934
Degrees of Freedom	21
Significance	<0.001

Two broad factors were obtained when factoring the analysis: accounting-based and market valuation factors. Table 3 represents the percentage of variance for each component.

Table 3: Total Variance Explained for Financial Performance Indicators

Component	Initial Eigenvalues	% of Variance	Cumulative %
1	3.660	60.99%	60.99%
2	1.122	18.69%	79.69%

From the dyadic rotated component matrix presented in Table 4, it is also possible to support the classification of performance indicators.

Table 4: Rotated Component Matrix for Financial Performance Indicators

Financial Indicator	Component 1 (Accounting Ratios)	Component 2 (Market Valuation Ratios)
Profit After Tax (PAT)	0.707	-
Return on Equity (ROE)	0.927	-
Return on Capital Employed (ROCE)	0.952	-
Return on Assets (ROA)	0.957	-
Market Capitalization (LnMcap)	-	0.902
Tobin's Q	-	0.693

Figure 2 shows the scree plot that also indicates several factors in the current study for two factors.

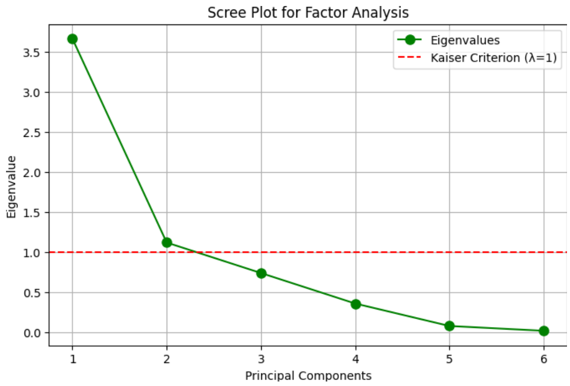

Fig. 2: Scree Plot for Factor Analysis.

Figure 2 also validates the factors under the financial performance components that consist of two factors: accounting- and market-based.

4.3. Regression analysis for corporate governance and corporate financial performance

For testing this hypothesis, multiple regression analysis has been utilized to examine the effect of CG on the CFP of the organization. Findings of the model summary in Table 5 also reveal that they reject the null hypothesis of H2, developed by stating that CG has no direct effect on CFP.

Table 5: Model Summary for Corporate Governance and CFP

Model	R	R^2	Adjusted R^2	Std. Error
1	0.581	0.337	0.331	0.49889

The ANOVA results shown in Table 6 further support this finding.

Table 6: ANOVA for Corporate Governance and CFP

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	68.917	5	13.783	55.378	0.000
Residual	135.399	544	0.249	-	-
Total	204.316	549	-	-	-

The coefficients in Table 7 show that the independent variables of CG do not affect the CFP (t = 0.560).

Table 7: Regression Coefficients for Corporate Governance and CFP

Predictor	B	Std. Error	Beta	t	Sig.
Constant	2.253	0.296	-	7.615	0.000
Corporate Governance	0.006	0.010	0.021	0.583	0.560

Fig 3 shows a scatter plot of the independent variable of CFP against the predicted and actual values of CG, indicating a weak relationship between them.

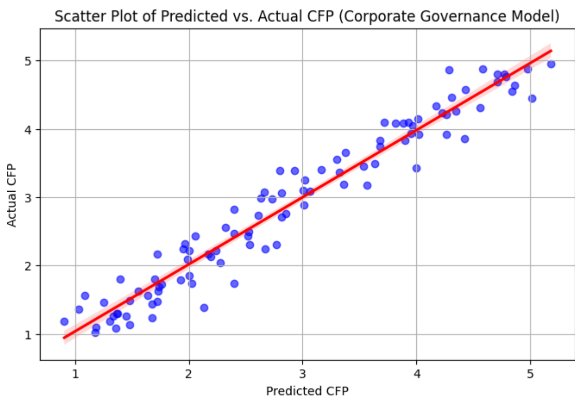

Fig. 3: Controlling for Predicted vs. Actual CFP Values Using the Corporate Governance Data Set.

In the case of CG, this figure shows a weak relationship between forecasted and actual CFP amounts.

4.4. Regression analysis for corporate social responsibility and corporate financial performance

Thus, when comparing CG's effect, there was a positive influence on part of CSR on the CFP. The model summary given in Table 8 suggests a better predictive ability.

Table 8: Model Summary for CSR and CFP

Model	R	R^2	Adjusted R^2	Std. Error
1	0.597	0.356	0.350	0.49180

The ANOVA results in Table 9 confirm the model's significance.

Table 9: ANOVA for CSR and CFP

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	72.741	5	14.548	60.150	0.000

From Table 10, here the outcomes of the analysis of all independent variables are presented; the coefficient of CSR has been statistically significant as well as positive ($p<0.001$).

Table 10: Regression Coefficients for CSR and CFP

Predictor	B	Std. Error	Beta	t	Sig.
CSR	0.037	0.009	0.151	4.020	0.000

Fig.4 presents the actual and predicted CFPs and shows the predictive capability of CSR.

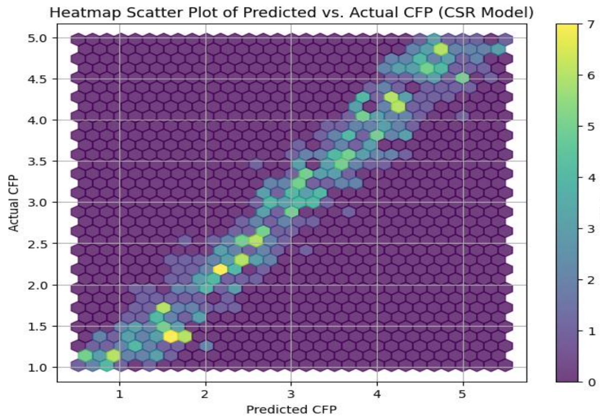

Fig. 4: Represents A Scatter Plot of Predicted Values Against Actual CFP Values That Retained the Same Procedure as Explained in Fig. 3.

When CSR has been introduced as an additional independent variable in the regression process, it is notable that there are higher R-squared values for the actual and predicted CFP.

The regression analysis revealed contrasting outcomes for CG and CSR. While the CG index did not show a statistically significant direct impact on CFP ($\beta = 0.021$, $p = 0.560$), the CSR index exhibited a positive and significant effect ($\beta = 0.151$, $p < 0.001$). CSR also demonstrated a partial mediating role between CG and CFP. Moderation analysis showed that the impact of CSR on CFP was stronger in mid-sized firms and specific sectors such as automobile and FMCG. These results are summarized in Table 11 and illustrated conceptually in Figure 5, highlighting the mediating and moderating mechanisms underpinning firm performance.

Table 11: Summary of Moderation Effects

Moderating Variable	Effect on CG → CFP	Effect on CSR → CFP
Firm Size	Stronger for mid-sized firms ($p = 0.002$)	Significant in mid-sized firms ($p = 0.045$)
Industry Type	Notable in the FMCG sector ($p = 0.017$)	Strong in the automobile sector ($p = 0.002$)
Other Sectors	Insignificant	Weak or negligible

5. Conclusion

The study's results offer initial evidence of the positive relationship between CSR and CFP, which confirms that CG does not substantially contribute to it. H_2 accepts, while partial support is given to H_1; it is hypothesized that CG has a crucial impact on CFP. Same way, support for H_3 is obtained because CSR is confirmed for the moderating relationship between governance & CFP, meaning that well-governed firms engage in CSR that enhances their financial returns. The moderation relationships postulated in H_4 and H_5 show that the firm size and the industry type affect the intensity of these associations, as well as the fact that governance and CSR effectiveness are context-dependent.

While prior studies (e.g., Saeidi et al., 2015; Singh et al., 2024) have highlighted the positive influence of CSR on financial performance, this study advances the literature by empirically demonstrating the partial mediating role of CSR in the relationship between CG and CFP, within the context of Indian firms. Unlike earlier research that treats CG and CSR as parallel influencers, this study proposes and validates a novel interactional framework wherein CG supports and enables CSR initiatives, which in turn drive financial outcomes. This mediated pathway, combined with the moderating effects of firm size and industry, offers a more nuanced understanding of how governance mechanisms indirectly contribute to performance. By integrating these dimensions into a composite model (Figure 5), the research not only reconfirms known relationships but extends them to reflect context-specific strategic alignments, making a significant contribution to both theory and practice in the accounting and corporate governance domains.

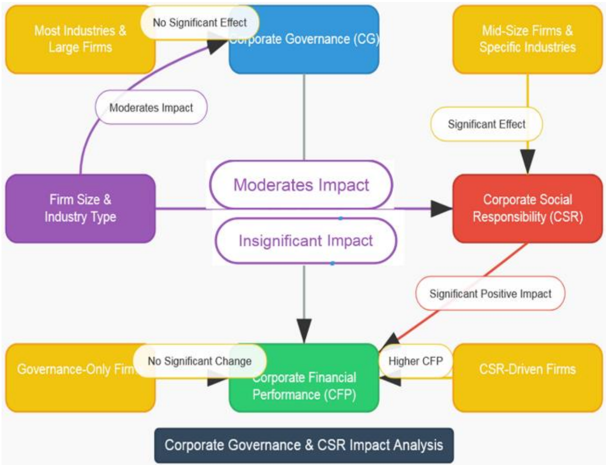

Fig. 5: New Model Based on Findings

6. Limitations of the study

However, it has been essential for the discussion of the limitations of current research findings for the purpose of academic transparency. However, the main source of data in research is annual reports, which are subjective in measuring governance and CSR indices. Although the study draws upon a sample of 55 Indian firms, this selection was purposive, focusing on companies with consistent and transparent disclosure of CG and CSR practices. Given the complexity and depth of the variables analyzed—including index construction and sectoral stratification—this sample offers meaningful insights while maintaining methodological rigor. Nonetheless, future research with larger and more diverse samples, possibly using panel data or time-series methods, can validate the robustness and generalizability of these findings across broader corporate ecosystems. CFP measures were also adopted to assess the impact of CSR and governance, while overlooking other important non-financial impacts, such as the company's reputation as well as the morale of employees. Reliance on secondary data also hampers the possibility of including fresh and time-sensitive information on the dynamics of governance and CSR processes.

7. Implications of the study

The study's findings demonstrate a strong link between CSR and CFP, positioning CSR as a strategic tool for long-term sustainability. From an accounting standpoint, these results emphasize the importance of integrating CSR disclosures within financial reports, aligning with emerging ESG and sustainability reporting frameworks such as the BRSR and GRI. Similarly, effective corporate governance, although not directly correlated with financial outcomes in this study, contributes to enhanced financial transparency, improved audit quality, and more reliable financial reporting. These dimensions are critical under Indian accounting regulations (e.g., Companies Act, Schedule III) and global standards like IFRS. Policymakers and corporate boards should therefore treat CSR and CG not only as ethical imperatives but also as mechanisms to strengthen compliance and investor trust.

8. Future recommendations

Future research should consider longitudinal designs to explore the dynamic nature of CG and CSR practices over time. Expanding the scope to include additional industries or cross-country comparisons could provide insights into how regulatory environments and cultural norms shape governance-performance relationships. Moreover, incorporating non-financial metrics such as employee morale, environmental impact, or brand reputation may enrich the understanding of corporate success. There is also scope to explore CG's influence on specific accounting outcomes such as audit quality, earnings management, and reporting transparency—areas that hold high relevance for accounting scholars and practitioners.
Quantitative studies can also consider other controls for board of directors and executives, as well as their effects on CSR & performance. Future research should employ such models concerning various industries to offer specific suggestions concerning a particular industry size. On the other hand, it should be specific to offering suitable suggestions to industries based on the industry variety noticed in an enterprise.

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