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Interpreting the impact of Governance on Social and Environmental Performances in Indian Context

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ABSTRACT
Corporate governance refers to the system of rules, policies, and processes through which companies are directed and controlled, shaping the relationships among stakeholders such as shareholders, management, employees, customers, suppliers, regulators, and the broader community. Its central purpose is to ensure ethical, transparent, and responsible operations that protect stakeholder interests. In India's evolving corporate landscape, governance has become closely intertwined with both social and environmental performance. Strong governance practices—particularly board independence, transparent decision-making, and active stakeholder engagement—play a critical role in strengthening Corporate Social Responsibility (CSR) and shaping a company's social and environmental impact. Board dynamics and interlocking directorships further influence corporate behaviour, driving or constraining responsible practices. This study interprets how governance structures affect social and environmental performance in Indian firms (top 30 listed), offering insights that can help corporate leaders and policymakers enhance ESG strategies and promote long-term sustainable impact..

Keywords: Corporate Governance, Social Performance, Environmental Performance, ESG, Sustainability..

INTRODUCTION:

In India's rapidly transforming corporate environment, the interaction between governance structures and social performance has become a focal point for scholars and policymakers. Corporate governance, as described by Mallin (2019), encompasses a system of mechanisms designed to balance stakeholder interests and strengthen ethical conduct, transparency, and accountability. Key governance dimensions—such as board independence, gender diversity, frequency of board meetings, the presence of a code of conduct, whistleblower protections, and formal ESG risk management frameworks—illustrate the complexities firms face in aligning profitability with social responsibility and regulatory expectations (Fernando, 2022; OECD, 2015). Board dynamics, particularly interlocking directorships, also play an influential role in shaping strategic decisions and corporate social outcomes. Prior studies note that while board interlocks can enhance resource sharing and knowledge transfer, they may simultaneously create dense corporate networks that concentrate power and weaken oversight, influencing both social and financial performance (Balasubramanian, Black & Khanna, 2010; Khanna & Thomas, 2009). Against this backdrop, the present study evaluates these governance variables using primary data from Indian companies to understand their impact on social performance, thereby contributing to the broader discourse on governance effectiveness and corporate responsibility within the Indian context (Aggarwal & Williamson, 2006).

1. LITERATURE REVIEW

The relationship between corporate governance and organisational social and environmental performance has become a key area of inquiry in India's evolving corporate landscape. Effective governance encompasses the systems, structures, and processes that guide corporate behaviour, ensuring transparency, accountability, and responsible decision-making (Mallin, 2019; Fernando, 2022). As firms in India operate within complex regulatory and socio-economic settings, governance mechanisms—such as board composition, independence, diversity, audit quality, and stakeholder-oriented policies—play a decisive role in influencing their social and environmental outcomes

From a social performance perspective, governance mechanisms support ethical conduct, equitable practices, and stakeholder well-being. Prior literature highlights that governance structures centred on board independence, gender diversity, whistleblower protections, and transparent reporting significantly enhance corporate social responsibility (CSR) and community development initiatives (Balasubramanian et al., 2010; Aggarwal & Williamson, 2006). Additionally, board interlocks in India have been shown to influence knowledge transfer, policy diffusion, and CSR decision-making, although concerns persist about elite concentration of power and diminished oversight (Khanna & Thomas, 2009). Strong governance frameworks encourage alignment between corporate strategies and societal expectations, creating sustainable, long-term social value (Anand, 2021; Kumar & Singh, 2019).

A deep dive into environmental performance within corporate governance reveals equally critical linkages shaping corporate action in India. Environmental performance—captured through indicators such as carbon emissions, resource efficiency, waste management, biodiversity conservation, and pollution control—has become central to corporate sustainability strategies. The concept of portfolio primacy, highlighted by Tallarita et al. (2023), underscores the growing role of institutional investors and asset managers in compelling firms to prioritise climate resilience and environmental stewardship, reflecting the financial risks embedded in environmental degradation. Furthermore, strong internal governance mechanisms, including internal audit quality, compliance committees, and independent risk oversight, significantly enhance environmental accountability (Nyakumwa et al., 2023; Aoun et al., 2023).

Examining governance's influence on environmental performance is particularly crucial in India—where rapid industrial expansion intersects with urgent environmental challenges. Empirical research shows that board independence and CEO–board separation positively affect firms' adoption of eco-friendly technologies, pollution mitigation strategies, and proactive environmental disclosures (Adutwumwaa et al., 2021; Shen et al., 2020). Indian firms with robust ESG integration have demonstrated superior environmental outcomes, driven by heightened stakeholder engagement, regulatory compliance, and global sustainability expectations (Goyal, 2022; Bansal & DesJardine, 2014). Recent studies further indicate that governance-led sustainability initiatives not only reduce environmental risks but also strengthen long-term firm performance and investor confidence (Clark, Feiner & Viehs, 2015; Ameer & Othman, 2012).

The intersection of governance, social responsibility, and environmental performance thus provides crucial insights for India's corporate sector. As regulatory bodies such as SEBI mandate enhanced ESG disclosures and Business Responsibility and Sustainability Reporting (BRSR), governance-driven sustainability is becoming a strategic imperative. This study contributes to this discourse by analysing key governance variables and their direct impact on social and environmental performances, strengthening understanding of corporate responsibility within the Indian context.

Research Objectives

To identify impact of corporate governance on social performance and environmental performance in Indian companies.

Hypothesis

There is no significant relationship between corporate governance structure and social performance in top 30 listed Indian companies.

There is no significant relationship between corporate governance structure and environmental performance in top 30 listed Indian companies.

Methodology

To explore the influence of corporate governance on the social & environmental performance of companies in India, data set of Dow Jon Sustainability Index – Corporate Sustainability Scorecard was used.

The **Dow Jones Sustainability Index (DJSI) Corporate Sustainability Assessment (CSA)** is widely recognised as one of the most rigorous global frameworks for evaluating corporate sustainability performance. Developed by S&P Global (2023), the CSA applies an extensive set of industry-specific ESG criteria—covering climate strategy, human rights, environmental management systems, innovation capacity, and supply chain sustainability—to benchmark companies. The DJSI methodology, as detailed by S&P Dow Jones Indices (2022), selects only top-performing firms, making inclusion a strong indicator of corporate resilience, transparency, and long-term value creation. Scholars highlight that such comprehensive sustainability assessments can significantly influence organisational practices and financial outcomes, reinforcing the strategic value of strong ESG performance (Eccles, Ioannou & Serafeim, 2014; Lozano, 2015). In the Indian context, the CSA has gained importance as companies increasingly align with global sustainability reporting standards to attract ESG-focused investors and enhance international competitiveness, consistent with trends noted in sustainability reporting literature (Siew, 2015).

Governance Parameters (Independent Variables): Board Independence, Tax Transparency, Targets, Executive Pay, Women in Board, Policies on each topic

Social Performance Parameters (Dependent Variables): Community Project, Human Rights, Labour Practices, Health & Safety, Attrition Rate, Diversity

Environment Performance Parameters (Dependent Variables): Carbon Emission, Waste Reduction, Renewable Energy Projects, Environment Systems, Biodiversity

2. RESULTS AND DISCUSSION

The scorecard for top 30 Indian listed companies:

S. no	Company Name	Environment	Social	Governance
1	Reliance Industries Ltd	36	37	40
2	HDFC Bank Ltd	40	62	59
3	Tata Consultancy Services Ltd	80	48	52
4	Bharti Airtel Ltd	68	70	67
5	ICICI Bank Ltd	26	35	51
6	State Bank of India	27	66	45
7	Infosys Ltd	76	65	63
8	Bajaj Finance Ltd	11	53	51
9	Hindustan Unilever	72	70	62

	Ltd			
10	ITC Ltd	86	89	70
11	Life Insurance Corporation of India	5	12	19
12	Larsen & Toubro Ltd	48	41	18
13	Sun Pharmaceutical Industries Ltd	86	83	67
14	Kotak Mahindra Bank Ltd	25	58	59
15	HCL Technologies Ltd	78	58	67
16	Maruti Suzuki India Ltd	31	43	38
17	AXIS Bank Ltd	41	60	60
18	Mahindra & Mahindra Ltd	82	85	79
19	UltraTech Cement Ltd	77	74	68
20	NTPC Ltd	36	49	37
21	Bajaj Finserv Ltd	18	42	41
22	Oil and Natural Gas Corporation Ltd	38	30	10
23	Hindustan Aeronautics Ltd	23	34	20
24	Titan Company Ltd	24	29	31
25	Power Grid Corporation of India Ltd	40	47	38
26	Adani Ports and Special Economic Zone Ltd	89	74	37
27	Adani Enterprises Ltd	75	70	40
28	Avenue Supermarts Ltd	27	31	36
29	Wipro Ltd	93	85	72
30	Tata Motors Ltd	68	70	49

6.1 Correlation Between Governance Practices and Social Performance

Regression Statistics	
Multiple R	0.797089904
R Square	0.635352315
Adjusted R Square	0.622329184
Standard Error	12.08511811
Observations	30

	Coefficients	Standard Error	t Stat	P-value
Intercept	13.64565289	6.407972335	2.129481	0.042143458
X Variable 1	0.871805265	0.124815895	6.98473	1.35281E-07

The regression analysis examines the effect of governance practices (independent variable) on social performance (dependent variable) for a sample of 30 companies. The model demonstrates a **strong and statistically significant relationship** between the two variables.

Model Strength:

The Multiple R value of **0.797** indicates a strong positive correlation.

The R Square value of **0.635** means that **63.5% of the variation in social performance is explained by governance practices**.

The Adjusted R Square (**0.622**) confirms that the model remains robust even after adjusting for sample size and predictors.

Significance of the Model:

The independent variable (governance practices) has a **highly significant effect** on social performance, as shown by the very small p-value (**1.35×10^{-7}**), far below the 0.05 threshold.

This significance indicates that the relationship is not due to random chance and governance practices are indeed a meaningful predictor of social performance.

Coefficient Interpretation:

The coefficient for governance practices (0.872) suggests that for every 1-unit improvement in governance practices, social performance increases by 0.87 units, holding other factors constant.

The positive coefficient confirms that better governance practices lead to improved social performance.

The intercept (13.65) represents the baseline level of social performance when the governance practices score is zero.

6.2 Correlation Between Governance Practices and Environmental Performance

Regression Statistics	
Multiple R	0.608087795
R Square	0.369770766
Adjusted R Square	0.347262579

Standard Error	21.85741913
Observations	30

Regression Statistics	
Multiple R	0.608087795
R Square	0.369770766
Adjusted R Square	0.347262579
Standard Error	21.85741913
Observations	30

The regression analysis explores how governance practices influence environmental performance across 30 companies. The results indicate a **moderate but meaningful relationship** between the two variables.

Model Strength:

The Multiple R value of **0.608** suggests a **moderate positive correlation** between governance practices and environmental performance.

The R Square value of **0.370** indicates that **36.9% of the variation in environmental performance is explained by governance practices**.

The Adjusted R Square **(0.347)—**slightly lower due to sample size adjustment—still shows that the model has reasonable explanatory power.

Interpretation:

The findings imply that governance practices contribute to environmental performance, but **not as strongly as they do for social performance** (as seen from your previous results).

The influence of governance on environmental outcomes is moderate, suggesting that while governance mechanisms (board oversight, ESG policies, internal controls, etc.) do affect environmental initiatives, environmental performance may also depend heavily on external and operational factors—such as industry type, regulatory environment, technological capacity, or capital investment.

Standard Error:

The standard error of **21.86** reflects some variability in environmental performance scores, indicating differences across companies in how effectively governance translates into environmental outcomes.

3. CONCLUSION

The findings clearly show that **governance practices have a strong, positive, and significant impact on social performance** among the companies studied. This implies that firms with stronger governance—such as transparent policies, independent boards, and ethical frameworks—tend to demonstrate higher levels of social responsibility and community engagement. This supports existing literature that governance mechanisms play a central role in driving a firm's social outcomes.

The results show that governance practices have a **significant yet moderate impact** on environmental performance. While firms with better governance structures tend to exhibit stronger environmental outcomes, governance alone explains only part of the variation. This suggests that environmental performance in Indian companies is influenced by both internal governance quality and broader contextual factors, aligning with literature that highlights the multi-dimensional nature of environmental performance drivers.

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