



Impact of Corporate Governance and CSR on Firm’s Performance: A Moderating Role of Corporate Philanthropy

Ch Kamran Mahmood *

PhD Finance, Foundation University, Rawalpindi, Pakistan

Muhammad Raheem Baig

MS Finance, Riphah International University, Islamabad, Pakistan

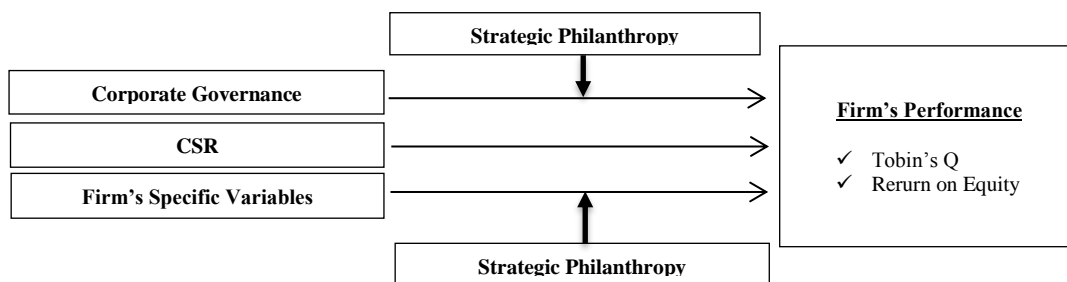
*Corresponding author’s Email: arsalkamran@gmail.com

Research Highlights

The paper examines the effect of Corporate Governance and CSR on firm’s performance in the listed companies of Pakistan Stock Exchange in the presence of Corporate Philanthropy. The study employs yearly data spanning over the period of 2004 to 2017. Corporate Governance, CSR and Firm Specific Variables serve as independent variables, Corporate Philanthropy as a moderating variable and firm’s performance proxies by Tobin’s Q, and ROE as dependent variables in the model. Data has been extracted from Annual reports of the firms. The data has been analyzed with a view to check cause and effect relationship by using Multivariate Panel Data Analysis.

Results deduced that Corporate Governance, CSR and Firm Specific Variables have positive significant effect on firm’s performance. Results also confirmed that Corporate Philanthropy moderates the relation between Corporate Governance, Firm Specific Variables and firm’s performance.

Graphical Abstract



Research Objectives

- To determine the impact of Corporate Governance, Firm Specific Variables & CSR on Firm’s Performance.
- To identify the moderating role of Corporate philanthropy between Corporate Governance & Firm’s Performance.
- To identify the moderating role of Corporate Philanthropy between Firm Specific Variables & Firm’s Performance.



Significance of the Study

Consensus on the positive or negative contribution of Corporate Philanthropy towards firm's performance would establish a well-defined course of action for the corporate sector (Saiia, Carroll, & Buchholtz, 2003). The Philanthropy, recognized as an additional factor in the CSR will provide an opportunity to the policy makers to direct their resources towards achieving the combined effects of Corporate Governance, CSR and Corporate Philanthropy to a great extent. As a result, the increased profitability ratios, resulting due to the combined effects of Corporate Governance, CSR and Corporate Philanthropy will attract the investment opportunities in the open market (Brammer & Millington, 2006; Crampton & Patten, 2008; Muller & Whiteman, 2009; Tilcsik & Marquis, 2013). It will also provide a lead to the stakeholders if the Agency Cost is contributing positively or vice versa. Moreover, the establishment of positive contribution would change the societal outlook of the corporate sector to a great extent whereas the efficient CSR and Philanthropy will protect ecology from deterioration and will expand future business opportunities.

Methodology

This study is constructed on quantitative research to find the relationship between Corporate Governance, CSR and Firm Specific Variables on firm's performance in the presence of Corporate Philanthropy. Data for 14 years (2004 – 2017) was collected from financial reports of all selected firms i.e. 577 Public Listed Companies registered in Pakistan Stock Exchange. Out of total population of 577, 434 companies was selected. After analyzing the firm's reports, those firms who do not contribute towards the CSR or Corporate Philanthropy and financial institution were dropped. At last 254 non-financial companies was selected.

Results

Table 1: Impact of Corporate Governance and CSR on Tobin's Q with Philanthropy as moderator

Variable	Coefficient	Prob.
C	1.881	0.083
Firm Size	0.047	0.027
Firm Age	-0.677	0.017
Leverage	-0.103	0.501
Board Size	-0.414	0.001
Board Independence	0.131	0.551
CEO Duality	-0.167	.0099
CSR	-0.032	0.149
Philanthropy	0.129	0.041
Philanthropy*Board Independence	0.025	0.049
Philanthropy*Firm Age	-0.530	0.008
Philanthropy*CEO Duality	-2.41E-07	0.026
Philanthropy*LEVERAGE	-7.99E-08	0.035
Adjusted R-squared		0.548
Durbin-Watson stat		0.929
F-statistic/ Prob		8.207/ 0.000

Table 2: Impact of Corporate Governance and CSR on ROE with Philanthropy as moderator

Variable	Coefficient	Prob.
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C	-0.251	0.000
Firm Size	0.007	0.025
Firm Age	-3.85E-09	0.033
Leverage	-0.022	0.003
Board Size	-0.132	0.030
Board Independence	-0.017	0.024
CEO Duality	-0.030	0.009
CSR	-7.77E-11	0.214
Philanthropy	2.40E-10	0.0008
Philanthropy*Board Independence	4.57E-10	0.023
Philanthropy*Firm Age	-6.71E-09	0.030
Philanthropy*CEO Duality	3.04E-09	0.774
Philanthropy*LEVERAGE	5.02E-09	0.223
Adjusted R-squared		0.3814
Durbin-Watson stat		1.787
F-statistic/ Prob		35.882/ 0.000

Findings

Based on the findings of this study it is concluded that Philanthropy, Corporate Governance and Firm Specific Variables are significant tools to improve firm's performance. Likewise, Firm Size and Philanthropy have positive impact on Tobin's Q and ROE. Firm Age, Board Size and CEO Duality have negative impact on Tobin's Q indicating that larger firm and board does not contribute towards the performance; it is the attitude of the firm and quality of the board that actually matters. Similarly, Debt is not being judiciously utilized. On the other hand, Firm Age, Leverage, Board Size, Board Independence and CEO Duality are showing negative significant impact on ROE. The impact these variables decrease with the tendency to contribute for philanthropy.

Present study provides improved understanding of firm's performance while measuring Corporate Governance and CSR and Philanthropy. Its improved performance has observed significant impact of Corporate Governance and Philanthropy. The role of Philanthropy as moderator between Corporate Governance, Firm Specific Variables and firm's performance is significant. Philanthropy also represents negative significant moderating effect in relation with Firm Age, Leverage and CEO Duality; moreover, it has positive significant moderating effect in relation of board independence.

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