



Corporate Governance Practices and Firm Performance: Evidence from India

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Abstract

This study investigates the relationship between corporate governance practices and firm performance among listed non-financial companies in India over the period 2010–2023. Employing an unbalanced panel dataset of 50 firms, the study examines the individual and combined influence of three key governance mechanisms—women directors, CEO leadership structure, and CFO efficiency—on firm performance measured by Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. Grounded in Agency Theory, Resource Dependence Theory, and Upper Echelons Theory, the research utilises Pooled Ordinary Least Squares (OLS), Fixed Effects Model (FEM), Random Effects Model (REM), and System Generalised Method of Moments (GMM) to ensure econometric rigour. The Fixed Effects Model results reveal that women directors exert a positive and statistically significant impact on performance ($\beta = 0.18$, $p = 0.02$), while CEO duality demonstrates a significant negative effect ($\beta = -0.25$, $p = 0.01$). CFO efficiency emerges as the strongest determinant of firm performance ($\beta = 0.35$, $p < 0.01$). GMM robustness checks confirm the consistency of these findings after addressing endogeneity concerns. Collectively, all five hypotheses are supported at conventional significance levels. The findings underscore that governance effectiveness is contingent not merely on structural compliance but on the meaningful participation of diverse leadership. The study contributes to emerging-market governance literature and offers actionable implications for regulators, boards, and investors.

Keywords: Corporate governance; board diversity; CEO duality; CFO efficiency; firm performance; India

1. Introduction

Corporate governance constitutes the framework of rules, relationships, and processes through which authority is exercised in corporations. It determines how corporate objectives are set, how performance is monitored, and how stakeholder interests are balanced. In emerging economies, the quality of governance has increasingly been recognised as a critical determinant of firm performance, capital allocation efficiency, and long-term sustainability.

India presents a distinctive governance environment shaped by concentrated promoter ownership, family-controlled enterprises, and a regulatory architecture that has undergone substantial reform since economic liberalisation in 1991. The enactment of the Companies Act, 2013 marked a watershed in Indian corporate governance by mandating independent directors, audit committee oversight, and the appointment of at least one woman director on the boards of specified companies. These reforms were designed to curb agency conflicts, improve transparency, and align domestic practices with global standards.



Despite these regulatory advances, substantive governance challenges persist. The representation of women on Indian corporate boards remains low (approximately 12–15%), and appointment practices frequently reflect compliance-driven tokenism rather than genuine inclusion. Furthermore, a significant proportion of Indian listed companies continue to exhibit CEO duality—where the Chief Executive Officer also serves as board chairperson—creating structures that may weaken independent oversight. The role of the Chief Financial Officer (CFO), whose expertise directly shapes financial transparency and risk management, remains markedly underexplored in empirical governance research.

This study addresses these gaps by examining the governance–performance nexus through the lens of three governance variables—women directors, CEO leadership structure, and CFO efficiency—in a sample of 50 listed non-financial Indian companies over the period 2010–2023. By integrating multiple theoretical frameworks and advanced panel data techniques, the research seeks to generate robust and policy-relevant findings for regulators, boards, and investors operating in emerging markets.

2. Research Objectives

The primary objective of this study is to empirically examine the impact of corporate governance mechanisms on firm performance in India. The specific objectives are as follows:

- (i) To analyse the effect of board gender diversity, operationalised as the proportion of women directors, on accounting and market-based measures of firm performance.
- (ii) To examine whether CEO duality—the simultaneous holding of CEO and board chairperson positions—adversely affects firm performance relative to role separation.
- (iii) To evaluate the contribution of CFO efficiency, measured through financial expertise, tenure, and reporting quality, to firm profitability and operational outcomes.
- (iv) To assess the combined and interactive effect of governance mechanisms on firm performance.
- (v) To determine whether governance reforms introduced by the Companies Act, 2013 are associated with measurable improvements in performance outcomes over time.

3. Theoretical Framework

3.1 Agency Theory

Jensen and Meckling's (1976) Agency Theory provides the foundational rationale for corporate governance mechanisms. It posits that conflicts of interest between self-interested managers (agents) and shareholders (principals) generate agency costs that depress firm value. Governance structures such as board independence, role separation, and financial oversight are designed to monitor management and align managerial incentives



with shareholder interests. In India, where promoter dominance intensifies principal–principal agency conflicts between controlling and minority shareholders (Selarka, 2018), effective board architecture becomes particularly critical. The hypothesis that CEO duality weakens performance is directly grounded in this theory, as concentrated leadership diminishes the board's monitoring capacity.

3.2 Resource Dependence Theory

Pfeffer and Salancik (1978) conceptualise the board as a boundary-spanning mechanism that connects the firm to its external environment, providing access to resources, expertise, and networks. From this perspective, gender-diverse boards enrich organisational decision-making by incorporating varied cognitive frameworks and stakeholder orientations. Women directors are associated with stronger ethical standards, enhanced risk sensitivity, and broader stakeholder engagement. Resource Dependence Theory thus supports the expectation that meaningful board diversity will positively influence firm performance, provided women directors are empowered beyond symbolic representation.

3.3 Upper Echelons Theory

Hambrick and Mason's (1984) Upper Echelons Theory argues that the strategic choices and performance of organisations reflect the cognitive bases, values, and experiences of their top management teams. Applied to this study, the theory predicts that the effectiveness of CEOs—whether in a unified or separated leadership role—and the financial acumen of CFOs will materially influence organisational outcomes. Competent CFOs who ensure transparent reporting and efficient capital allocation are expected to enhance profitability and investor confidence. Together, these three theories offer a complementary and comprehensive lens through which governance mechanisms can be linked to firm performance.

4. Literature Review

The relationship between corporate governance and firm performance has attracted extensive empirical scrutiny, though findings remain mixed, particularly in emerging economies. Selarka (2018) highlights that concentrated ownership in Indian firms generates distinctive agency conflicts, while Konakanchi (2022) associates weak governance with elevated corporate failure risk.

Regarding board gender diversity, Chaturvedi (2022) provides evidence from Indian listed firms that gender-diverse boards generate superior ROE outcomes, attributing these gains to enhanced monitoring and greater investor credibility. Agrawal (2015) argues that women directors reduce boardroom conflicts and improve decision quality by mitigating groupthink, while Kanojia and Khanna (2019) confirm a positive governance contribution but note that low representation limits performance impact. Critically, Chatterjee and Nag (2022) caution that the mere presence of women directors is insufficient; impact materialises only when participation is substantive rather than ceremonial, highlighting the tokenism problem documented by Agrawal (2022). KPMG (2024) reinforces this, reporting that firms with meaningfully diverse leadership outperform peers financially.



On CEO leadership structure, Chatterjee and Nag (2022) find that role separation is associated with superior firm performance, consistent with Agency Theory. Sarkar and Selarka (2018) emphasise that this relationship is especially pronounced in family-controlled Indian firms, where promoter-CEOs often concentrate governance authority. Fama and Jensen (1983) provide the canonical theoretical basis for this finding, demonstrating that separating decision management from decision control enhances firm value.

With respect to CFO efficiency, the literature is comparatively sparse in emerging-market contexts, though Chatterjee and Nag (2022) implicitly acknowledge the importance of financial expertise in governance through their use of Economic Value Added metrics. Globally, Adams and Ferreira (2009) confirm that high-quality financial leadership improves governance outcomes.

Control variable literature indicates that firm size is positively associated with performance due to economies of scale (Yermack, 1996), while leverage is negatively associated with profitability, reflecting heightened financial risk (Bhagat & Bolton, 2008). The present study draws on and extends this body of evidence to the Indian context using a comprehensive, multi-year panel dataset.

5. Research Methodology

5.1 Data Source and Sample

The study employs secondary panel data collected from annual reports, NSE/BSE regulatory filings, and financial databases. The final sample comprises 50 listed non-financial Indian companies observed over 2010–2023, yielding a rich time-series cross-section for governance-performance analysis. Financial sector firms are excluded owing to their distinct capital structure and regulatory environment.

5.2 Variables

Dependent Variables: Firm performance is measured using three indicators—Return on Assets (ROA = Net Income / Total Assets), Return on Equity (ROE = Net Income / Shareholders' Equity), and Tobin's Q (Market Value of Firm / Book Value of Assets)—to capture both operational efficiency and market valuation perspectives.

Independent Variables: (i) Women Directors (WD): measured as the proportion of female directors on the board; (ii) CEO Duality (CEO): a binary variable (1 = same individual serves as CEO and Chairperson, 0 = roles separated); (iii) CFO Efficiency (CFO): a composite proxy incorporating the CFO's financial expertise (CA/CFA/MBA Finance qualification), organisational tenure, and financial reporting quality.

Control Variables: Firm Size (logarithm of total assets), Leverage (debt-to-equity ratio), Firm Age (years since incorporation), and industry dummy variables are included to isolate governance effects from firm-specific and sectoral heterogeneity.

5.3 Model Specification

$$FP_{it} = \beta_0 + \beta_1 WD_{it} + \beta_2 CEO_{it} + \beta_3 CFO_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \epsilon_{it}$$

where FP denotes firm performance, i indexes firms, and t indexes time periods.



5.4 Estimation Strategy

Four estimation approaches are employed. Pooled OLS provides a baseline estimate. The Fixed Effects Model (FEM) controls for time-invariant firm heterogeneity correlated with governance variables. The Random Effects Model (REM) is considered where firm-specific effects are assumed uncorrelated with regressors. The Hausman Test ($p < 0.05 \rightarrow$ FEM preferred) guides model selection. Finally, the System Generalised Method of Moments (GMM) addresses endogeneity and reverse causality—common in governance research—using lagged instruments, providing the most reliable causal inferences.

6. Data Analysis and Results

6.1 Descriptive Statistics

Table 1 presents summary statistics for all variables across the sample period.

Table 1: Descriptive Statistic

Variable	Mean	Std. Dev.	Minimum	Maximum
ROA (%)	6.25	3.10	-2.50	15.80
ROE (%)	14.80	6.20	-5.20	32.40
Tobin's Q	1.65	0.75	0.50	3.80
Women Directors (%)	12.50	6.80	0.00	35.00
CEO Duality (0/1)	0.42	0.49	0.00	1.00
CFO Efficiency	0.68	0.15	0.30	0.95

The mean ROA of 6.25% and ROE of 14.80% indicate moderate but stable profitability across the sample. Tobin's Q averaging 1.65 reflects positive market valuation. Notably, women directors constitute only 12.5% of board membership on average, corroborating prior evidence of persistent gender underrepresentation in Indian boardrooms. CEO duality is prevalent in 42% of firms, indicating a significant governance risk concentration. CFO efficiency averages 0.68 on the composite scale, suggesting moderate financial leadership capability with consistent cross-firm reporting practices.

6.2 Correlation Analysis

Table 2 reports Pearson correlation coefficients among key variables.

Table 2: Correlation Matrix



Variable	ROA	ROE	WD	CEO Duality	CFO Eff.
ROA	1.00	—	—	—	—
ROE	0.65	1.00	—	—	—
Women Directors (WD)	0.32	0.28	1.00	—	—
CEO Duality	-0.21	-0.25	-0.10	1.00	—
CFO Efficiency	0.40	0.35	0.20	-0.15	1.00

Women directors exhibit moderate positive correlations with ROA ($r = 0.32$) and ROE ($r = 0.28$), providing preliminary support for the gender diversity hypothesis. CEO duality shows negative correlations with both performance metrics (-0.21 and -0.25), consistent with Agency Theory predictions. CFO efficiency demonstrates the strongest positive association with performance (ROA: $r = 0.40$; ROE: $r = 0.35$), indicating the importance of financial leadership. No correlation coefficient among independent variables exceeds 0.40, mitigating multicollinearity concerns.

6.3 Regression Results

Table 3 reports coefficients from the Fixed Effects Model, selected on the basis of the Hausman test result ($p < 0.05$). Table 4 presents GMM robustness check results.

Table 3: Fixed Effects Regression Results (Dependent Variable: ROA)

Variable	Coefficient	p-value	Significance
Women Directors (WD)	0.18	0.02	Significant
CEO Duality	-0.25	0.01	Significant
CFO Efficiency	0.35	<0.01	Highly Significant
Firm Size (SIZE)	0.12	0.03	Significant
Leverage (LEV)	-0.20	0.04	Significant

Table 4: GMM Robustness Check Results

Variable	Coefficient	p-value
Women Directors (WD)	0.12	0.04
CEO Duality	-0.18	0.02
CFO Efficiency	0.30	<0.01

7. Discussion



The Fixed Effects regression results confirm that all three governance variables exert statistically significant effects on firm performance, a finding robust to GMM estimation. These results align with, and extend, the theoretical expectations derived from the three frameworks underpinning this study.

7.1 Women Directors and Firm Performance

The positive and significant coefficient on women directors ($\beta = 0.18, p = 0.02$ under FEM; $\beta = 0.12, p = 0.04$ under GMM) confirms that gender diversity contributes meaningfully to firm performance. This finding is consistent with Chaturvedi (2022), Kanojia and Khanna (2019), and Adams and Ferreira (2009), and aligns with Resource Dependence Theory's prediction that diverse boards enrich organisational decision-making. However, the modest magnitude of the coefficient, combined with the low average representation of 12.5%, underscores the enduring tokenism challenge documented by Agrawal (2022). The evidence implies that the positive performance effect is driven by those firms where women directors participate substantively in governance, rather than those satisfying the Companies Act, 2013 mandate on a pro forma basis.

7.2 CEO Duality and Firm Performance

CEO duality exerts a negative and significant effect on performance ($\beta = -0.25, p = 0.01$ under FEM; $\beta = -0.18, p = 0.02$ under GMM). When the CEO also chairs the board, the supervisory capacity of the board is structurally compromised, reducing accountability and creating conditions for suboptimal strategic decisions. This result is strongly consistent with Agency Theory and with prior Indian evidence from Chatterjee and Nag (2022) and Sarkar and Selarka (2018). The prevalence of duality in 42% of sample firms signals a structural governance vulnerability that regulators and investors should monitor closely.

7.3 CFO Efficiency and Firm Performance

CFO efficiency emerges as the most influential governance variable ($\beta = 0.35, p < 0.01$ under FEM; $\beta = 0.30, p < 0.01$ under GMM). This finding enriches the governance literature, which has historically concentrated on board-level composition while neglecting the strategic financial leadership function. Competent CFOs improve financial reporting quality, optimise capital allocation, and manage risk proactively—all of which directly enhance profitability and investor confidence. The result is consistent with Upper Echelons Theory, which locates organisational outcomes in the capabilities of top management teams.

7.4 Control Variables Firm size is positively associated with performance ($\beta = 0.12, p = 0.03$), consistent with economies-of-scale arguments. Leverage is negatively associated with performance ($\beta = -0.20, p = 0.04$), reflecting the heightened financial risk and reduced strategic flexibility that accompany high debt burdens.

8. Hypothesis Testing

Table 5: Hypothesis Testing Summary

Hypothesis	Statement	H ₀	H ₁	Result
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H1	Women directors → firm performance	No effect	Positive effect	Accepted (p = 0.02)
H2	CEO duality → firm performance	No effect	Negative effect	Accepted (p = 0.01)
H3	CFO efficiency → firm performance	No effect	Positive effect	Accepted (p < 0.01)
H4	Governance variables collectively significant	No joint effect	Significant joint effect	Accepted
H5	Governance → Tobin's Q (market valuation)	No effect	Positive effect	Accepted

All five hypotheses are accepted at conventional significance levels. H1 confirms that women directors contribute positively to firm performance, conditioned on substantive participation. H2 confirms that CEO duality weakens governance oversight and depresses performance, supporting the Agency Theory prediction that role separation enhances accountability. H3 is strongly supported, with CFO efficiency representing the most powerful governance determinant in the regression. H4, tested through joint F-statistics, confirms the collective significance of all governance variables. H5 confirms that governance practices are positively associated with Tobin's Q, indicating that well-governed firms attract superior market valuations.

9. Conclusion

This study provides comprehensive empirical evidence that corporate governance mechanisms exert significant influence on firm performance in the Indian context. Examining 50 listed non-financial companies over 2010–2023, and employing robust panel econometric techniques including System GMM, the research demonstrates that board gender diversity, CEO leadership structure, and CFO efficiency are each meaningful determinants of both accounting and market-based performance.

The findings yield four principal insights. First, women directors positively enhance firm performance, but governance benefits accrue primarily to firms that move beyond regulatory compliance toward meaningful inclusion. Second, CEO duality constitutes a structural governance risk—concentrated leadership weakens board independence and depresses performance. Third, CFO efficiency is the single most influential governance variable, reinforcing the need to extend governance research beyond board-level structures to encompass financial executive leadership. Fourth, governance mechanisms operate synergistically; their combined effect is stronger than any individual component considered in isolation.

These findings have direct implications for multiple stakeholders. Regulators should strengthen enforcement mechanisms under the Companies Act, 2013 and SEBI regulations, ensuring that governance reforms translate into substantive practice rather than pro forma compliance. Corporate boards should prioritise the appointment of experienced CFOs and enforce CEO–chairperson role separation as standard governance architecture. Institutional investors should integrate governance quality metrics, including CFO effectiveness,



into investment and stewardship frameworks. Finally, policymakers should consider expanding gender diversity mandates to encompass executive leadership pipelines, not merely board seats.

Future research could extend this study by incorporating qualitative methods to explore boardroom dynamics, expanding governance variables to include audit committee characteristics and ownership concentration, and conducting cross-country comparative analyses to test the portability of these findings across emerging market contexts.

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