Chapter 7
Does Audit Committee Matter for Corporate Social Performance?
Evidence From India

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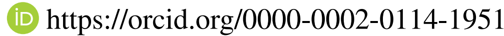
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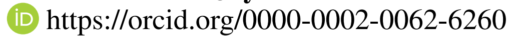
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ABSTRACT

This study examines the effect of audit committees on corporate social performance. Using a sample of Indian firms for the 2008–2021 period, we find that the firm's corporate social performance is significantly higher in the presence of an audit

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committee. This relationship is stronger when the audit committee consists of more directors. Our results support the resource dependence theory, which indicates that the members of each committee on the board provide various resources to the firms in the form of their skills and expertise. Our study has an implication for the regulators that more transparency should be required in the audit committee to ensure better corporate governance.

1. INTRODUCTION

Corporate social responsibility (CSR) has gained wide market interest globally, in emerging as well as advanced economies, as globalization came and the international trade volume attained mass scale (Jamali & Mirshak, 2006; Thomas et al., 2024). This has motivated academicians, businesses, and policymakers to give substantial attention to CSR. Firms are under pressure not merely to achieve financial objectives but also to meet and balance numerous bottom lines and address the demands of multiple stakeholders (Jamali, 2008; Pfajfar et al., 2022). CSR disclosure contributes to the company's overall competency and financial performance and enhances stakeholder value by minimizing the management-stakeholder information asymmetry (Cho et al., 2013; Coelho et al., 2023; Cui et al., 2018; Kaur & Singh, 2021; Maqbool & Zameer, 2018; Naqvi et al., 2021). Customers aware of CSR initiatives can raise the corporate image and brand value, increasing demand for the company's products (Ali et al., 2019; Brown & Dacin, 1997).

Firms and the public in general pretty much unaware of their rights and responsibilities, with firms considering CSR as a liability rather than a source of long-term interest (Ying et al., 2021). Against this backdrop, regulations have been implemented in some countries which mandate CSR spending to ensure social performance. These mandatory requirements, especially in India, China, and South Africa, made the companies increasingly spend a certain sum of money on CSR activities. In India, the Companies Amendment Act of 2013 made it compulsory for companies to divulge their average profit for the preceding three years spent on CSR activities in their annual reports. In an investigation of the consequence of the amendment on stock returns, Manchiraju and Rajgopal (2017) show that mandatory CSR regulations had an unfavorable effect on the shareholder wealth goal, inhibiting firms from spending on CSR. Thus, earlier, firms hesitated to invest in CSR activities due to the conservative thinking that the return to shareholders may decrease if companies start spending on CSR. The mandatory requirements brought a radical change to the Indian CSR initiatives that were undertaken.

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