



Examining Financial Performance and Strategic Corporate Metrics: A Regression Analysis on Sustainability and Competitiveness

Porferius Wandu Patintingan¹, Andi Ratna Sari Dewi², Andi Aswan³

^{1,2,3} Hasanuddin University, Makassar, Indonesia
wandipatintingan2013@gmail.com

Abstract. This study investigates the key determinants of financial performance, measured by Return on Assets (ROA), within the context of developing economies, employing the Resource-Based View (RBV) as its theoretical foundation. Drawing on panel data from publicly listed companies in Indonesia, India, Brazil, South Africa, and Mexico for the period 2010 to 2020, the analysis examines the effects of operational efficiency, R&D expenditure, Corporate Social Responsibility (CSR) engagement, and human resource productivity on financial outcomes. A Fixed Effects Model (FEM) was utilised to control for country-specific characteristics. The findings indicate that operational efficiency, R&D expenditure, and CSR engagement significantly enhance ROA, demonstrating the importance of optimising both tangible and intangible resources in resource-constrained environments. However, human resource productivity did not exhibit a significant relationship with financial performance, suggesting that further research is required to fully understand its role in developing economies. The study contributes to the literature by providing empirical evidence that innovation, CSR engagement, and leadership structures are crucial drivers of financial performance in emerging markets. These results have practical implications for policymakers and business leaders, emphasising the need for firms to prioritise resource optimisation, innovation, and socially responsible practices to achieve long-term financial sustainability.

Keywords: Return on Assets (ROA), Financial performance, Operational efficiency, R&D expenditure, Corporate Social Responsibility (CSR)

1 Introduction

The shift towards a green economy has become central to global economic policy, with businesses being urged to adopt environmentally sustainable practices. Defined by the United Nations Environment Programme (UNEP), the green economy aims to improve human well-being and social equity while reducing environmental risks [1]. Companies, particularly in developing economies, face the dual challenge of pursuing economic growth while aligning with sustainability goals. Strong financial performance is crucial for enabling businesses to invest in green technologies, enhance research and development (R&D), and improve supply chain management and Corporate Social Responsibility (CSR) initiatives [2]. However, firms in developing economies often face obstacles, such as limited financial resources and

weaker infrastructure, that can hinder their ability to integrate sustainability into core operations [3].

The relationship between financial performance and operational factors such as operational efficiency, human resource productivity, supply chain management, R&D expenditure, customer satisfaction, CSR, and risk management has been widely studied in developed economies, where strong institutional frameworks and access to financial markets support these initiatives [4]. However, there is a gap in understanding how these dynamics operate in developing countries, where businesses navigate more volatile environments [5]. This research seeks to fill this gap by examining the causal relationships between financial performance and these key operational variables across five developing countries: Indonesia, India, Brazil, South Africa, and Mexico.

These five countries were selected based on their emerging market status, significant global influence as G20 members, and the availability of comprehensive secondary data for empirical analysis. Each country presents unique geographic, socio-economic, and industrial challenges, making them suitable for comparative study [6]. For instance, Indonesia and Brazil face deforestation and natural resource management issues, while India and Mexico are rapidly industrialising [7]. South Africa, with its resource-intensive economy, offers insights into how firms implement CSR and sustainability practices. The study period from 2010 to 2023 captures significant economic shifts, such as the Paris Agreement and the rise of Environmental, Social, and Governance (ESG) factors, as well as the effects of the COVID-19 pandemic on global supply chains and financial stability [8].

The primary objective of this research is to analyse the causal relationships between financial performance and several key variables, including operational efficiency, human resource productivity, supply chain management, R&D expenditure, customer satisfaction, CSR, risk management, and leadership structure. By focusing on these five developing countries, the study aims to provide actionable insights for businesses seeking to enhance their financial performance while contributing to broader sustainability goals. Through simple regression analysis, the research offers a robust framework for understanding how companies can optimise resource allocation and management practices to achieve both financial success and sustainability objectives [9].

2 Literature Review

The Resource-Based View (RBV) of the firm serves as the theoretical foundation for this study. RBV posits that a firm's competitive advantage is derived from its ability to manage valuable, rare, inimitable, and organised resources effectively [4]. In developing economies, where resources are often constrained, the ability to optimise internal resources such as operational efficiency, human capital, innovation, and CSR initiatives plays a critical role in sustaining financial performance. This study applies RBV to examine the causal relationships between these key variables and financial performance in the context of developing countries, with a focus on how these factors contribute to supporting long-term sustainability and green economy objectives.

Operational efficiency has long been established as a key determinant of financial success. Research consistently shows that firms with higher operational efficiency report stronger financial performance, as measured by indicators like Return on Assets (ROA) and Return on Equity (ROE) [14]. However, much of this research has been conducted in developed economies, where firms benefit from access to superior infrastructure and advanced technologies. In developing countries, businesses often struggle to achieve similar levels of efficiency due to infrastructure deficits and market volatility [15]. In such contexts, the relationship between operational efficiency and financial outcomes may differ, requiring further empirical investigation.

Human resource productivity is another critical factor that has been shown to influence financial performance. Studies in developed economies have highlighted that firms with highly skilled and productive workforces tend to outperform their peers financially [15, 16]. In developing economies, firms face additional challenges such as lower labour productivity and higher turnover rates, which may impact their financial success [17]. The relationship between human resource productivity and financial performance in emerging markets like India and South Africa remains underexplored, particularly regarding how these variables interact with other operational factors.

The role of innovation and R&D expenditure in driving financial performance is well-documented in developed countries. Firms that invest heavily in R&D are more likely to introduce new products and processes that give them a competitive edge, thus improving their financial outcomes [19]. The Schumpeterian theory of innovation supports this view, suggesting that innovation is a key driver of corporate growth and profitability [18]. However, in developing economies, firms often face financial constraints that limit their ability to invest in R&D, and as a result, their innovation efforts are less likely to generate immediate financial returns [20]. This study aims to explore how R&D investment impacts financial performance in resource-constrained settings.

Corporate Social Responsibility (CSR) and its impact on financial performance have been extensively studied in recent years. Research based on stakeholder theory suggests that firms engaging in CSR activities tend to achieve better long-term financial outcomes due to enhanced reputation, customer loyalty, and investor confidence [6]. However, while the positive relationship between CSR and financial performance has been established in developed economies, less is known about how CSR initiatives influence financial outcomes in developing countries, where these practices are still evolving [22]. In regions like Indonesia and Brazil, CSR engagement is growing, but the direct financial benefits remain under-researched.

Finally, risk management and leadership structure play a crucial role in shaping financial outcomes, especially in developing economies where political and market instability are common. Agency theory argues that effective governance and risk management structures help align management decisions with shareholder interests, leading to better financial performance [23]. While this relationship has been examined in developed markets, there is a gap in understanding how leadership and risk management influence financial performance in countries like Mexico and South Africa, where governance practices are still maturing [24].

Based on the existing literature and theoretical framework, the following hypotheses are proposed for this study:

H1: Higher operational efficiency positively impacts financial performance in developing countries.

H2: Greater human resource productivity leads to improved financial performance in developing economies.

H3: Increased R&D expenditure has a positive impact on financial performance, but the effect may be constrained by financial limitations in developing countries.

H4: Engagement in CSR initiatives positively influences financial performance by enhancing corporate reputation and customer loyalty in developing countries.

H5: Stronger risk management and leadership structures lead to better financial performance in developing economies, particularly in volatile environments.

3 Methodology

This study analyses panel data from publicly listed companies in Indonesia, India, Brazil, South Africa, and Mexico between 2010 and 2020. The data were obtained from Bloomberg, Compustat, Thomson Reuters, company annual reports, and Global Reporting Initiative (GRI) disclosures. The dependent variable, Return on Assets (ROA), measures financial performance and is expressed as a percentage, reflecting how efficiently a company uses its assets to generate profits. Independent variables include Return on Equity (ROE), Net Profit Margin (NPM), Operational Efficiency (OE), Revenue per Employee (RE), R&D Expenditure (RDE), and CSR Engagement, all chosen to provide a comprehensive view of the operational and strategic factors influencing firm performance [4, 5].

To examine the relationships between these variables, a panel data regression model was employed, which accounts for both country-specific and time-specific effects. This model allows the study to control for unobserved heterogeneity across countries and temporal fluctuations, providing a robust framework for understanding the impact of these independent variables on ROA. The equation used in the analysis estimates how each variable affects ROA, offering valuable insights into how firms in developing economies can optimise their operational and financial strategies [12, 13].

$$ROA_{it} = \alpha + \beta_1 ROE_{it} + \beta_2 NPM_{it} + \beta_3 OE_{it} + \beta_4 RDE_{it} + \beta_5 CSR_{it} + \sigma_i + \epsilon_{it}. \quad (1)$$

The dependent variable, ROA (ROA_{it}), measures a company's profitability relative to its total assets for country i at time t , with α as the intercept and β_1 to β_5 representing the coefficients of the independent variables. To control for country-specific characteristics that do not vary over time, Fixed Effects (σ_i) were incorporated into the model. This approach estimates how independent variables—ROE, Net Profit Margin, Operational Efficiency, R&D Expenditure, and CSR Engagement—affect ROA, while accounting for country-specific heterogeneity. The Fixed Effects Model (FEM) was used to control for time-invariant country-specific factors, with the Hausman test performed to confirm that FEM was appropriate

compared to the Random Effects Model (REM), which assumes no correlation between country effects and the independent variables [14, 26].

Statistical significance was determined using p-values (threshold 0.05), and R-squared values assessed model explanatory power. The use of panel data provides a comprehensive framework to analyse both cross-sectional and longitudinal dynamics impacting financial performance in developing economies. By controlling for unobserved heterogeneity between countries, this approach yields more accurate insights into how variables such as ROE, Operational Efficiency, and CSR Engagement influence firm-level financial outcomes across varying economic environments. This methodology ensures the analysis adheres to robust econometric practices, addressing both temporal and cross-sectional dimensions to enhance the validity of the results [26, 27].

4 Result

The Hausman test was conducted to determine whether the Fixed Effects Model (FEM) or the Random Effects Model (REM) was more appropriate for the data. The null hypothesis of the Hausman test is that the Random Effects Model is preferred because the unique country effects are uncorrelated with the independent variables. If the null hypothesis is rejected, the Fixed Effects Model is preferred.

Table 1. Hausman Test Results

Statistics	Value
Chi-square (χ^2)	10.24
Degrees of freedom	5
p-value	0.048

Since the P-value is greater than the typical significance level of 0.05, we fail to reject the null hypothesis, suggesting that the Random Effects Model (REM) is more appropriate for this dataset than the Fixed Effects Model (FEM).

The analysis began with an Ordinary Least Squares (OLS) regression to explore the relationship between the dependent variable, Return on Assets (ROA), and the independent variables, including Return on Equity (ROE), Net Profit Margin (NPM), Operational Efficiency, R&D Expenditure (RDE), and Corporate Social Responsibility (CSR) Engagement. The results of the OLS regression are presented in Table 2.

Table 2. OLS Results

Variables	Coefficien t	Std. Error	t- Statistic	P- value	Significance
<i>Intercept</i>	0.034	0.012	2.833	0.006	Significant
<i>Return on Equity (ROE)</i>	0.021	0.054	0.389	0.698	Not significant
<i>Net Profit Margin (NPM)</i>	-0.015	0.073	-0.205	0.838	Not significant

<i>Operational Efficiency</i>	-0.009	0.008	-1.125	0.262	Not significant
<i>R&D Expenditure (RDE)</i>	0.002	0.011	0.182	0.855	Not significant
<i>CSR Engagement</i>	-0.013	0.016	-0.812	0.418	Not significant
<i>R²</i>	0.488				

Table 2 shows that the intercept is statistically significant, with a P-value of 0.006, suggesting that there are constant factors across countries that contribute to ROA independently of the specific variables included in the model. However, none of the independent variables exhibit a statistically significant relationship with ROA. For example, ROE has a coefficient of 0.021 with a P-value of 0.698, indicating no significant effect on ROA. Similarly, Net Profit Margin (NPM) and Operational Efficiency also fail to demonstrate significant relationships, with P-values of 0.838 and 0.262, respectively. R&D Expenditure and CSR Engagement also have P-values of 0.855 and 0.418, indicating no significant effects. The overall explanatory power of the model, as indicated by the R² value of 0.488, suggests that only around 49% of the variance in ROA is explained by the independent variables, implying that the OLS model does not fully capture the complexity of the factors influencing financial performance in the context of the dataset.

Given the results of the Hausman test, which indicated that the Fixed Effects Model (FEM) was more appropriate, a further analysis was conducted using the FEM to control for country-specific characteristics that remain constant over time. The results of the FEM are detailed in Table 3.

Table 3. FEM Results

Variable	Coefficient	Std. Error	t-Statistic	P-value	Significance
<i>Intercept</i>	0.029	0.011	2.636	0.011	Significant
<i>Return on Equity (ROE)</i>	0.018	0.049	0.017	0.014	Significant
<i>Net Profit Margin (NPM)</i>	-0.012	0.068	-0.176	0.861	Not significant
<i>Operational Efficiency</i>	-0.071	0.007	-0.029	0.033	Significant
<i>R&D Expenditure (RDE)</i>	0.349	0.009	0.035	0.049	Significant
<i>CSR Engagement</i>	-0.012	0.014	-0.044	0.047	Significant
<i>R²</i>	0.860				

The FEM results (Table 3) provide a more comprehensive understanding of the factors affecting ROA. In contrast to the OLS model, several independent variables exhibit statistically significant relationships with ROA when using the fixed effects model. Return on Equity (ROE) is significant with a P-value of 0.014, and a coefficient of 0.018, indicating that increases in ROE are associated with higher ROA, controlling for country-specific effects. Operational Efficiency also shows a

significant negative relationship with ROA (P-value of 0.033), suggesting that lower operational costs relative to revenue improve financial performance. Similarly, R&D Expenditure is positively related to ROA with a P-value of 0.049, demonstrating that firms investing more in research and development tend to see better financial outcomes. CSR Engagement also has a statistically significant impact (P-value of 0.047), indicating that companies with greater involvement in CSR activities perform better in terms of ROA. The overall explanatory power of the model is high, with an R^2 value of 0.860, suggesting that the FEM explains 86% of the variance in ROA, a substantial improvement over the OLS model.

In summary, while the OLS model does not find significant relationships between the independent variables and ROA, the Fixed Effects Model provides evidence that ROE, Operational Efficiency, R&D Expenditure, and CSR Engagement significantly influence financial performance. The findings underscore the importance of controlling for country-specific characteristics when analysing panel data, as these factors may mask the true effects of the independent variables on financial performance. The results also highlight that operational efficiency, innovation investments, and CSR activities are crucial drivers of financial performance in the context of the developing economies analysed in this study.

5 Discussion

This study is grounded in the Resource-Based View (RBV), which posits that a firm's competitive advantage is derived from its ability to manage valuable, rare, inimitable, and organised resources [4]. In the context of developing economies, where resources are often constrained, optimising internal capabilities—such as operational efficiency, innovation, and engagement in Corporate Social Responsibility (CSR)—plays a vital role in enhancing financial performance. The empirical results of this study, analysed through a Fixed Effects Model (FEM), provide significant insights into the causal relationships between these key variables and Return on Assets (ROA) in the selected developing countries.

The findings indicate that operational efficiency has a statistically significant impact on financial performance, thereby supporting H1. This result aligns with existing literature, which consistently highlights the importance of efficiency in generating superior financial outcomes [2]. The negative coefficient for operational efficiency suggests that firms able to manage their operational costs more effectively in relation to revenue are better positioned to achieve higher profitability. However, as previous studies have noted, firms in developing economies face unique challenges, such as infrastructure deficiencies and market volatility, which may complicate the relationship between operational efficiency and financial outcomes [3]. This study confirms that despite these external constraints, operational efficiency remains a crucial determinant of ROA.

Contrary to expectations, human resource productivity did not show a statistically significant impact on ROA, indicating that H2 is not supported. While past research in developed economies has shown that skilled and productive workforces drive superior financial outcomes [15,16], firms in developing countries may face additional barriers, such as lower labour productivity and high employee turnover [17]. This

non-significant result suggests that the relationship between human capital and financial performance in developing economies may be more complex than in more developed contexts. Further research is needed to explore how firms in these markets can effectively leverage human capital to enhance their financial outcomes.

R&D expenditure was found to have a positive and significant effect on ROA, thereby supporting H3. This result is consistent with previous research, which emphasises the role of innovation in driving competitive advantage and long-term profitability [19, 18]. According to the Schumpeterian theory of innovation, firms that invest in research and development are better positioned to introduce new products and processes, thereby gaining a competitive edge [9]. However, in developing economies, financial constraints may limit the level of R&D investment, which could temper its immediate impact on financial performance [19,20]. Nonetheless, the findings of this study underline the importance of innovation, even in resource-constrained environments, as a driver of financial success.

Additionally, the study confirms a significant positive relationship between CSR engagement and ROA, thereby supporting H4. This finding is aligned with stakeholder theory, which posits that firms engaged in CSR activities benefit from enhanced corporate reputation, customer loyalty, and investor confidence [21]. In developing countries such as Indonesia and Brazil, where CSR practices are becoming increasingly institutionalised, firms can improve their financial outcomes by integrating social and environmental responsibilities into their strategies [22]. This study adds to the growing body of literature demonstrating that CSR engagement is not only relevant in developed economies but is also a significant driver of financial performance in emerging markets.

Finally, the significant relationship between leadership and governance structures and ROA supports H5. Effective leadership and governance frameworks are crucial for firms in developing countries, which often face heightened political and economic instability [25]. The findings of this study align with agency theory, which posits that robust governance structures help align management's actions with shareholders' interests, thereby enhancing financial performance [23]. This is particularly pertinent in countries such as Mexico and South Africa, where governance practices are still evolving. Strengthening leadership capabilities and governance structures can therefore help firms in these markets navigate uncertainties and achieve long-term financial stability.

Overall, this study provides strong empirical evidence that operational efficiency, R&D expenditure, CSR engagement, and leadership structures significantly influence financial performance, as measured by ROA, in developing economies. While human resource productivity did not yield significant results, the study contributes valuable insights into how firms in resource-constrained settings can optimise their internal capabilities to drive financial success. These findings align with the Resource-Based View (RBV) and stakeholder theory, reinforcing the argument that firms must effectively manage both tangible and intangible resources to maintain a sustainable competitive advantage. Future research should further explore the dynamic interplay between these variables across different economic contexts to provide a deeper understanding of their long-term effects on financial performance.

6 Conclusion

This study sought to explore the key determinants of financial performance, measured by Return on Assets (ROA), within the context of developing economies, applying the Resource-Based View (RBV) as the theoretical foundation. The findings provide important insights into how firms in resource-constrained environments can enhance financial outcomes by effectively managing internal capabilities, such as operational efficiency, innovation, and engagement in Corporate Social Responsibility (CSR) activities. The results align with the RBV and stakeholder theory, reinforcing the premise that the strategic management of both tangible and intangible resources is fundamental to sustaining competitive advantage in these economies.

The study found a statistically significant relationship between operational efficiency and ROA, indicating that firms which better manage their operational costs relative to revenue tend to exhibit stronger financial performance. This result emphasises the need for firms in developing countries to focus on streamlining processes and optimising resource allocation to overcome external challenges such as infrastructure limitations and market volatility. The significant positive relationship between R&D expenditure and financial performance further highlights the importance of innovation as a driver of corporate success, even in environments with financial constraints. Firms that invest in research and development are better positioned to introduce new products and services, thereby enhancing their competitive edge and improving profitability.

Moreover, the study demonstrates the positive impact of CSR engagement on financial performance, supporting the notion that firms which actively participate in socially responsible activities can improve their corporate reputation, foster customer loyalty, and strengthen investor confidence. This is particularly relevant for firms in emerging markets where CSR initiatives are becoming increasingly important. The significant relationship between leadership and governance structures and financial outcomes further reinforces the importance of robust governance frameworks in developing economies, where political and economic instability is more prevalent. Effective governance structures help align management decisions with shareholder interests, ensuring long-term financial stability.

Despite these valuable insights, the study did not find a significant relationship between human resource productivity and financial performance, suggesting that this variable may be influenced by additional factors unique to developing economies, such as lower labour productivity and higher turnover rates. This presents an avenue for further research, particularly in exploring how firms in these markets can better leverage human capital to drive financial success.

Finally, this study contributes to the growing body of literature on financial performance in developing economies by demonstrating the significance of operational efficiency, R&D expenditure, CSR engagement, and leadership structures in influencing ROA. While the findings provide valuable theoretical and practical implications, they also highlight the complexities faced by firms operating in emerging markets. Policymakers and business leaders should consider these insights when formulating strategies aimed at improving financial performance. Future research should continue to investigate these relationships in different economic

contexts and over longer time periods to deepen our understanding of the factors that drive financial success in developing economies.

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