**Did India’s CSR mandate enhance or diminish firm value?**

*Abstract*

Can mandated adoption of Corporate Social Responsibility (CSR) improve firm value? Most CSR adoption is purely voluntary. However, governments regularly encourage CSR adoption with soft regulations that vary from simply endorsing and symbolically supporting CSR to requiring the adoption of specific practices. Governments have resisted fully mandating CSR because there is some concern universally that mandated CSR may reduce firm value. There is, however, no empirical clarity as to whether mandated CSR impedes or improves firm value. We address this uncertainty by analyzing the effects of the mandated adoption of CSR that the government of India legislated in 2014. Drawing on a sample of 1526 publicly-traded firms and deploying a combinative analytical framework comprising an event study, regression discontinuity design, and a difference-in-differences technique, we conclude that India’s CSR mandate did, in fact, increase value for all firms bound by the mandate. This value-enhancing effect was greater for foreign firms relative to domestic firms. Our results refute previous research showing that India’s CSR mandate diminished firm value.

Businesses have always had social responsibilities (Eberstadt, 1977; Panwar et al., 2006). However, the contemporary understanding of corporate social responsibility (CSR) is rooted in a neoliberal view of the division of social responsibilities between government and business (Shamir, 2008). According to this view, government creates a universal framework of baseline laws, but leaves the adoption of CSR practices to individual firms because they are better equipped to identify and adopt specific CSR practices tailored to the unique circumstances of the firm or the industry within which it operates (Sheehy, 2015). As such, most regulatory regimes adopt a discretionary CSR approach in which state enacted (“hard”) regulations define baseline legal requirements of corporate performance on given social and environmental parameters and corporations are expected to voluntarily exceed them. The hard regulations prescribe what firms should and should not do in relation to, for example, workers’ safety, minimum wages, emissions, and product advertisements. In such domains where baseline regulatory stipulations exist, CSR refers to supplementary activities exceeding the baseline regulatory requirements. For example, a CSR adoptive company, in addition to complying with employment related regulatory requirements, may offer tuition support for its employees. Firms can also design CSR activities in those domains, e.g., community engagement and philanthropy, where baseline regulatory stipulations do not typically exist.

The distinction between mandated and discretionary CSR becomes blurred when countries coat CSR with a regulatory veneer by enacting soft CSR regulations, i.e., policies and regulations that encourage CSR adoption, but with no direct penalties for violation (Abbott & Snidal, 2000; Shaffer & Pollack, 2009). Soft regulations encourage firms to adopt “discretionary” CSR practices that permeate a wide range of domains, for example, sustainable purchasing and procurement (Brammer & Walker, 2011), gender quotas in boards of directors (de Cabo et al., 2019), and reducing the gender pay gap (Smith, 2012). Soft CSR regulations can be placed in four broad categories: government endorsements, facilitation policies, fostering CSR partnerships, and CSR mandates (Knudsen et al., 2015). Of these, CSR mandates are noteworthy because they possess a relatively higher regulatory strength which may approximate hard regulations. CSR mandates, thus, contravene prevailing assumptions that CSR is a discretionary activity.

The prospect of a CSR mandate raises a significant question: if there is an erosion in corporate discretion over CSR, would mandated CSR still enhance firm value the way discretionary CSR does (Flammer, 2015; Orlitzky et al., 2003)? This question is significant because if mandated CSR enhances firm value, then government regulation may normalize and accelerate the adoption of discretionary CSR among corporations. If, however, mandated CSR diminishes firm value, then government regulation might, in fact, discourage the voluntary adoption of CSR by corporations. Absent a clear empirical understanding of the effect of mandated CSR on firm value, its effectiveness as a policy instrument remains uncertain.

To address this gap in knowledge, we exploit a critical case (Flyvbjerg, 2001) of mandated CSR created in 2014 when the government of India passed a law that required all Indian firms of a certain size to devote two percent of their average net profit from the previous three years to social and environmental issues. Firms were given the choice to spend the money to improve their own operations (e.g., improved emission control) in ways that would mitigate social and environmental problems, or make philanthropic contributions to agencies operating in social and environmental realms. The mandate also required firms to adopt CSR supporting governance structures (e.g., forming board level CSR committees) and external reporting activities. Notably, the mandate did not have a penalty clause. However, firms that failed to spend stipulated amounts of money were required to publicly explain why.

The Indian legislation created an ideal opportunity to observe the impact of mandated CSR on corporate value. Our research question is: “did the Indian CSR mandate enhance or diminish firm value?” Our study design mimics a natural experiment because the CSR mandate exogenously divided the entire population of Indian firms in two groups: those subjected to the mandate and those not. Comparing stock returns for these two groups can provide an answer to our study question.

We chose to assess firm value through stock returns for multiple reasons. First, investors’ reaction is based on anticipating stakeholders – not just shareholders – response to a proposed policy. Investors consider not just economic implications of a policy, but also its broader social implications for a firm (Bell et al., 2014; Rhee & Fiss, 2014; Zajac & Westphal, 2004). Second, while some may think that investor reaction is short term, it more typically rests on long-term future implications. Lane and Jacobson (1995) observe “investors update their expectations about long-term future cash flows, reacting immediately by buying or selling stock as new information becomes public” (p. 64). Third, because investors rapidly absorb and react to new policy information (Fama, 1991), investor reaction has a “high signal to noise ratio” (Flammer, 2015, p. 2554), which fosters conditions for making causal inferences.

Our findings contribute to the business and society literature in the following ways. Foremost, it uniquely extends our understanding of the role of government and regulations in CSR (Gond et al., 2011; Knudsen, 2018; Moon & Vogel, 2008). While prior research provides a rich analysis of the interaction between regulation and discretionary CSR, it has not fully explored how soft CSR regulations, specifically CSR mandates, can affect firm value. This understanding is critically important for many resource-scarce developing countries where governments consider such mandates as a way to normalize and promote CSR practices in hopes to channel private sector resources to development programs. If these mandates enhance firm value, we can reasonably expect that private industry would support them and hence this approach could be effective in normalizing CSR practices. However, if these mandates do not increase (or decrease) firm value, firms will seek ways to undermine them. In the latter case, governments would need to consider alternative approaches to normalize and promote CSR practices.

Second, the article informs the longstanding debate about how discretionary CSR enhances firm value. In contrast with a commonly held view that firms benefit from CSR primarily because the CSR zone of discretion affords firms unlimited opportunities to be innovative (Ackerman & Baeuer, 1976), our results suggest that, in some contexts, narrowing the zone of discretion through soft regulatory edicts is largely beneficial for firms. Our analyses point to two possible explanations for this effect: first, soft regulatory edicts, such as a CSR mandate, may reduce the contextual ambiguity firms face in developing and implementing CSR activities; and second, they may increase perceived legitimacy of CSR activities.

In addition to these empirical and conceptual contributions, this article also offers guidance for designing studies based on natural experiments that are lacking in business and society research (Crane et al., 2017). A key contribution of this article, thus, is methodological. We highlight the critical importance of carefully choosing the event date in the passage of regulatory edicts that are rarely defined by a single event, such as the passing of a law, but in reality, tend to evolve in stages.

We begin by surveying the literature on the role of government and regulation in CSR. We also elaborate our empirical context – i.e., the emergence of soft CSR regulation in India. We then present our hypotheses, comprising a main and two moderation effects. Next, we describe our study design, outline the econometric specifications, and review our data analyses, before presenting our results. The discussion section explores the implications of our findings. We conclude by noting our study limitations and outlining an agenda for future research.

**Regulatory interventions in CSR and India’s CSR regulation**

Although CSR adoption is conceptualized as a set of discretionary activities independent from government regulation (McWilliams et al., 2006), CSR scholars have long recognized that the regulatory environment influences whether – and how – firms pursue CSR (King & Lenox, 2000; Short & Toffel, 2010). Governments routinely influence CSR practices (Dentchev et al., 2015; Gond et al., 2011; Idemudia, 2010; Knudsen, 2018; Vallentin, 2015; Vallentin & Murillo, 2012). In fact, government intervention in CSR can be so profound that the UK government once had a separate minister of CSR. Thus, despite its framing in an ethos of voluntarism, CSR adoption is not purely discretionary. More typically, it occurs in a hybrid form that combines flexible regulatory edicts with discretionary CSR. These flexible regulatory edicts can be termed soft CSR regulations (Albareda et al., 2007).

Unsurprisingly, there is considerable variation in how the mandatory and voluntary elements of CSR are combined in practice. Scholars have theorized a range of typologies of soft CSR regulations (e.g., Albareda et al., 2007; Dentchev et al., 2015; Gond et al., 2011; Knudsen et al., 2015). One of the early typologies was created by Fox and colleagues (2002) which describes a continuum of regulations that begins with “endorsement”, the softest form of soft regulation, in which governments show political support for responsible business behavior through public procurement policies and symbolic actions, such as awards, information campaigns, websites, political rhetoric, and labeling schemes. A second, somewhat harder form of soft regulation arises when the regulator enacts policies that facilitate the adoption of CSR practices encourage firms to be more responsible through tax incentives, penalties, and subsidies. To motivate the voluntary adoption of environmental management programs, for example, some European countries provide regulatory relief in the form of lower reporting requirements or less frequent inspections for firms adopting such practices (Glachant et al., 2002). A third form of soft regulation arises when regulators establish policies that promote partnerships and motivate firms to engage in cross-sector collaboration with government and civil society organizations to disseminate knowledge or develop and maintain CSR standards and guidelines. Finally, in the most structured form of soft CSR regulations, regulators enact legislation that mandates CSR. These are the hardest of soft regulations, but are not fully coercive because they do not impose civil or criminal penalties for non-compliance (Fox et al., 2002; Gond et al., 2011; Knudsen et al., 2015).

CSR mandates have been enacted in several countries (Lin, 2021) but India presents one of the most prominent cases of a CSR mandate that obliges companies to engage in CSR activities. A country with a long and rich history of corporate philanthropy (Godfrey et al., 2017), India has emerged as one of the world’s fastest growing major economies. This economic growth has lifted hundreds of millions of Indians out of poverty, created unprecedented employment opportunities, attracted massive foreign investments, and has enabled India to become the third largest economy (based on purchasing power parity) in the world. However, such rapid economic growth has magnified India’s longstanding social and environmental challenges while also creating new ones. Concentration of wealth among privileged few is one such central social problem that is prominently pointed out as a dark side of India’s exponential economic growth. Income inequality has been sharply rising in India since the 1980s (Chancel & Piketty, 2017). Taking note of a widening economic inequality, India’s former Prime Minister Dr. Manmohan Singh bluntly urged CEOs and top managers to focus on inclusive growth if they wanted to avoid social unrest (Business Today, 2007). Amidst an intensifying societal sentiment that the benefits of a burgeoning economy were not reaching all segments of society, and that many social and environmental systems were deteriorating as a result of an unsustainable economic growth, the government of India proposed a legislation to ensure that large corporations took seriously the social challenges facing the country and committed to share a small fraction, i.e., two percent, of their profits to address these challenges through CSR efforts.

Unsurprisingly, the proposal received mixed reactions from the industry, and notably, these reactions kept changing as the proposal moved through the legislative process. Early on, many industry leaders and associations were vehemently opposed to the CSR mandate when it was first presented as a de facto hard regulation with no flexibility. The Confederation of Indian Industry (CII), one of India’s apex industry bodies, and many CEOs of leading companies called it a regressive proposal and a concealed tax burden. As the regulation evolved through the legislative process, industry representatives were regularly consulted (e.g., Bhattacharya & Rahman, 2019; Gatti et al., 2019; Jain et al., 2020). Perhaps as a result, the regulation morphed into a “comply or explain” CSR mandate (Mukherjee & Bird, 2016) such that if a corporation failed to make stipulated CSR expenditures, it could publicly explain the reasons for non-compliance. The industry’s support for this flexible CSR mandate was apparent. For example, Mr. Harsh Goenka, the chairperson of the RPG Enterprises, contributed an op-ed article titled, “Why is it a good idea to mandate corporate social responsibility?” in one of India’s leading business newspapers (Goenka, 2012). Similarly, Ms. Deepa Menon, head of the CSR wing of PVR Cinemas, underscored the need for a regulatory framework for CSR (Seth, 2011). In fact, CII, which was earlier the main critic of the CSR mandate when it was presented as a hard regulation, supported it in a soft “comply-or-explain” form (Firstpost, 2013).

There is considerable anecdotal evidence suggesting that India’s largest corporations were poised to welcome the CSR mandate in its soft (flexible) form. However, there were no precedents available to fully understand the overall effect of the CSR mandate on Indian corporations. Indeed, the question of whether India’s CSR mandate enhanced or harmed firm value for corporations subject to the law is still a matter of considerable scholarly debate (Aswani, Chidambaran, & Hasan, 2021; Manchiraju & Rajgopal, 2017; Nair & Bhattacharya, 2019). We address this question in the balance of this article. We begin by theorizing the potential effects and generating testable hypotheses in the next section.

**Hypotheses**

The modern form of CSR originated in the US (Matten & Moon 2008) and has diffused globally as a result of the transnational expansion of American corporations. CSR has not, however, diffused as a universal template. Rather, it has been adapted to local contexts (Jamali & Neville, 2011) in order to make CSR relevant for local stakeholders and communities (Baumgartner, 2014). Local adaptation, however, creates considerable opportunity for ambiguity and confusion about the meaning and composition of CSR (Pederson, 2006; Reddy & Hamann, 2018; Wijen, 2014). Some may view CSR as a philanthropic act, while others may see it as an approach to improving business practices in such wide-ranging domains as consumers, employees, suppliers, and communities.

When pioneering firms first introduce CSR to a new context, the views of managers of these firms about CSR may not necessarily align with those of their business network members (e.g., suppliers, contractors, distributors) or internal (e.g., employees) and external stakeholders (e.g., NGOs or community members). In the absence of a shared understanding, CSR initially remains an incomplete contract (Pederson & Anderson, 2006; Sacconi, 2006), increasing the likelihood of opportunistic behavior (Williamson, 1985) by network members or stakeholders. The uncertainty and ambiguity about the meaning and composition of CSR (Lepoutre et al., 2007) underlies the discord that often arises between a firm and its network members (Arenas et al., 2009).

CSR may also invoke skepticism at a societal level especially given the rising distrust of corporations (Connors et al., 2017). Forty of the Fortune 100 corporations that once trumpeted strong CSR commitments were later found to have engaged in some form of unethical behavior (Clement, 2006). Not long before it was exposed, Enron, the infamous poster child of corporate fraud, was ‘‘heralded as a paragon of corporate responsibility and ethics…” (Sims & Brinkmann, 2003, p. 243). More recently, companies such as Amazon, Google, and Volkswagen which extensively tout their commitment to CSR, have been involved in ethical controversies. The wrongdoings of even just a few companies engender general skepticism of CSR (Skarmeas & Leonidou, 2013). Such negative perceptions of CSR are even more pronounced in those societies – e.g., India – where private sector corruption is rampant and firms openly flout even basic legal requirements (Panwar et al., 2018; Prieto-Carrón et al., 2006). In those contexts, while firms feel isomorphic pressures to conform to global norms and adopt CSR (Kaplan & Kinderman, 2020), their CSR claims would likely be viewed with deep skepticism, making it implausible for firms to reap the business benefits of CSR that motivate them to adopt CSR in the first place.

One of the advantages of a universal form of CSR, thus, is the degree of certainty that it introduces into a local business context. When the understanding of CSR is fixed, either by established norms or by regulations, it levels the playing field by providing a degree of predictability and stability. Soft CSR regulations – a hybrid between discretionary CSR and flexible regulations – can be helpful in such situations. By offering a common framework to which all parties within a business relationship can refer, soft CSR regulations can reduce uncertainties and ambiguities about a pure discretionary form CSR. These regulations can also confer upon CSR practices regulatory legitimacy (Deephouse & Suchman, 2008), particularly in the context of CSR mandates which introduce more structure and certainty into the rules of adoption.

We expect, therefore, that firms bound by a soft CSR regulation, specifically CSR mandates that have greater regulatory strength than other forms of CSR regulations (Knudsen, 2018), to be better positioned for engaging their business network members and stakeholders in developing and implementing CSR activities. Also, CSR activities of such firms would be considered more credible by relevant audiences. Conversely, CSR activities of firms not bound by a CSR mandate will likely incur higher coordination costs due to recurring multiple interpretations of and disagreements among their business network members and stakeholders about what ought to be done in the CSR realm.

Thus, we postulate that amid the nascent and distrusting CSR environment prevalent in India when the CSR mandate was introduced, investors viewed it as a way to streamline firms’ CSR efforts and to make those efforts more credible in public eyes. Moreover, because the mandate gave a broad framework allowing firms to either donate the stipulated amount or invest in improving its performance on identified social and environmental issues, investors would see it as an enabling regulation that introduced stability and certainty into the marketplace, rather than a source of uncertainty and unfairness and therefore a hindrance. We expect investors to have supported the mandate, leading to an increase in firm value.

Therefore, our first hypothesis is:

**H1:** *The CSR mandate of India enhanced firm value for all firms bounded by the mandate*

Although we expect all firms bound by a CSR mandate to benefit, firms with certain characteristics would be likely to benefit more than others. In particular, we expect those characteristics which may influence a firm’s degree of uncertainty about CSR and those which may influence the trustworthiness of a firm’s CSR activities to be instrumental in determining whether the firm would benefit more or less than other firms from a CSR mandate. For the former (i.e., the uncertainty aspect), we choose foreign ownership; for the latter (i.e., the trustworthiness aspect), we choose controversial industry sectors. Below we explore how the effect of a CSR mandate on firm value might vary for firms possessing these characteristics.

*Foreign Firms:* Even though the ambiguity and confusion about the meaning and content of CSR is a matter of concern for all firms (Pederson, 2006; Wijen, 2014), the concern is particularly acute for foreign firms (Jamali & Neville, 2011). Foreign firms are more distant from and less knowledgeable about local contexts relative to domestic firms. This phenomenon, known as liability of foreignness or LOF (Gardberg & Fombrum, 2006; Zaheer, 1995), makes the adoption of local CSR practices more uncertain and complex for foreign firms than for domestic firms. Foreign firms lack the knowledge about which social (and environmental) issues are more relevant, which stakeholder groups are more prominent, and what are the most appropriate CSR activities in the host environment. A CSR mandate may help foreign firms reduce the LOF. A regulatory edict would make the rules of adoption more comprehensible, require less time to implement, and would lower the cost of exploring and learning the opaque norms of CSR in the local context. Explicit rules for CSR in a regulatory edict would put foreign firms on an equal footing with domestic firms.

Thus, while a CSR mandate should enhance value for all firms bound by it, the benefits for foreign firms are likely to be greater than domestic firms. Investors in foreign firms would note the especially advantageous positions of foreign firms in this regulatory regime. They would react even more favorably than investors of non-foreign firms. Hence, we expect a greater increase in the value of foreign firms relative to domestic firms. In the context of India’s CSR mandate, we propose our second hypothesis as below:

**H2:** *The CSR mandate of India had a greater value enhancing effect on foreign firms than on domestic firms*

Firms in controversial sectors such as mining, forestry, oil or related extractive industries or firms that engage in stigmatized practices such as “sweatshop” outsourcing, experience unique challenges in adopting CSR. On one hand, stakeholders and society exert greater pressure on such firms to show a deeper commitment to CSR; on the other hand, they are also critical and highly suspicious of their CSR efforts (Aqueveque et al., 2018; Cai et al., 2012; Panwar et al., 2014). Firms with such tarnished image would face what Ashforth and Gibbs (1990, pp. 186) call a “self-promoter’s paradox”. The more they try to (re)gain societal trust through CSR, the greater the risk of achieving the exact opposite (Lindgreen et al., 2012). So, for example, when firms in the tobacco industry attempted to improve their public image by adopting CSR practices, the World Health Organization publicly delegitimized their claims by calling them an inherently contradictory (Palazzo & Richter, 2005).

How might a CSR mandate affect this situation? Legitimacy theorists (e.g., Deephouse & Suchman, 2008; Meyer & Scott, 1983; Ruef & Scott, 1998; Scott, 2013) argue that when a practice lacks moral or cognitive legitimacy, it can be legitimized through coercive regulation. When a practice is distrusted, a “have to” signal is more convincing for societal evaluators than an “ought to” signal.

Extrapolating this logic, we argue that the likelihood of CSR being perceived as hypocritical would be lower when controversial sector firms pursue CSR activities under the oversight and guidance of a regulatory edict relative to when without such an oversight. In the former case, CSR would be viewed as a matter of compliance; in the latter, an act of window-dressing. Shareholders of a mining firm, thus, might be more tolerant of CSR programs in their company when all mining companies are forced to do the same. Similarly, social activist groups may be more distrustful of CSR adoption in a mining firm in the absence of some degree of regulatory oversight. Based on this, we believe that investors in controversial sector firms would be more supportive of a CSR mandate than firms in industries where CSR standards are already a normative practice. As a result, the change in firm value as a result of a CSR mandate will be greater relative to other firms. Therefore, in the context of India’s soft CSR mandate, we propose our third hypothesis as below:

**H3:** *The CSR mandate of India had a greater value enhancing effect on firms in controversial sector than firms in other sectors*

**Methods**

*Sample Selection*

The first public announcement of India’s CSR mandate provided the empirical context for this study. The mandate stipulated that firms must adopt institutionalized CSR related governance structures and devote two percent of their average net profit from the previous three years to broadly CSR activities. They could focus on social issues, community issues, environmental issues, or could even make philanthropic contributions. If they fail to comply with the stipulated expenditures, however, they must publicly explain why. The proposed mandate would apply to firms that met any of the following three criteria: (i) a net worth of Indian Rupees (INR) five billion, (ii) an annual turnover of INR ten billion, and (iii) an annual profit after tax (PAT) of INR fifty million averaged for the last three years.

In total, 1832 publicly- listed companies and 14716 unlisted companies came under the purview of the proposed mandate. In the present study, we used the third criteria (i.e, PAT) to identify our sample because it yielded the largest sample size and was therefore helpful in capturing maximum variation in the outcome variable1. We used the Prowess database of the Center for Monitoring Indian Economy (CMIE) to identify firms that meet this criterion. A total of 1526 firms were identified and these comprised our full study sample (N=1526). This represents eighty three percent of all listed firms subjugated to the proposed mandate. Of these 1526 firms, ninety six percent were domestic firms (the rest were foreign firms), and eight percent were in controversial (socially or environmentally high impact) industries2. Sixty-five percent of sample firms did not report any expenditure on CSR activities in previous years. The average spending on CSR activities was 0.23% of PAT (about ten times lower than the proposed regulatory requirement of 2%).

*Analytical framework*

We combined three methodological techniques, i.e., event study method, a regression discontinuity design (RDD) and a difference-in-differences (D-I-D) approach. Following numerous previous studies, firm value was assessed as a change in stock value (Cuñat et al., 2012; Flammer, 2015). The event study method enabled us to identify a precise event date to estimate any “abnormal” stock market reaction owing to the regulatory announcement; the RDD allowed us to address concerns of endogeneity by ascertaining that the stock market reaction was a causal effect of the regulatory announcement; and the D-I-D approach helped us tease apart differences in stock market reactions across firm types (foreign versus domestic; and controversial versus non-controversial industry sectors).

To develop a robust event study design, we followed McWilliams and Siegel (1997) by considering market efficiency, unanticipated events, and confounding effects as our guiding principles to determine which stock market should be used to observe investor reaction to the regulatory announcement and on which date. We identified the Bombay Stock Exchange (BSE) as an appropriate market for this study because it is a major stock exchange in India, is an efficient market where no undervalued securities offer higher than deserved expected returns, and where the stock prices follow a random walk similar to other major stock markets of the world (Sharma & Kennedy, 1977). Identifying a precise event date is a complex issue in the enactment of a legislation especially in democratic societies, because they are typically enacted through a time-separated series of negotiated processes and legislative approvals. This makes it difficult to determine the last point at which a regulation could be considered unforeseen. Following previous studies (Dharmapala & Khanna, 2018; Manchiraju & Rajgopal, 2017) and by exploring major Indian newspapers, we identified six potential event dates corresponding to the various stages of enactment of the CSR mandate. Upon careful analysis, we identified February 8, 2011 as the event date because it was on this date that it became clear for the first time that the regulation would be enacted in the form of a soft CSR mandate as opposed to a hard regulation, as was previously proposed. In other words, it became clear – and publicly known for the first time – on this date that the proposed mandate will have a “comply-or-explain” clause. Moreover, given the multi-party composition of the Parliamentary committee that developed these specifics, as well as the composition of the Indian Parliament at that time, any future changes in the proposed regulation were unlikely. Thus, February 8, 2011 is the most appropriate event date among possible alternatives. To test for any confounding effects on this date, we analyzed the major Indian newspapers and electronic media. Three coauthors of this article independently searched for any major macroeconomic event on February 8, 2011 that could have potentially affected stock market returns. No substantive event was found. Together these three considerations – market efficiency, an unanticipated event, and confounding effects – gave us the confidence to determine that the February 8, 2011 announcement of the impending CSR mandate gave an exogenous shock to the firms listed on the BSE index. It is therefore an appropriate choice for an event date for examining any abnormal stock market returns for firms which would be subjected to the proposed CSR mandate (hereon, subjugated firms) relative to firms which would not be subjected to it (hereon, non-subjugated firms).

Notably, India’s CSR mandate came into effect through a long-drawn legislative process. The initial proposal about the CSR mandate, as part of the new Companies Bill, was made in August 2009 in the lower house of the Indian parliament. Between August 2009 and February 2011, several amendments were introduced. On February 8, 2011 (i.e., our event date for the present study), the first public announcement about the soft nature of the CSR mandate was made. Upon passing through the lower house (in December 2012) and the upper house (in August 2013) and after being signed by the President of India on August 29, 2013, the Companies Bill, which the CSR mandate was a part of, came into effect from April 1, 2014.

Because a firm’s subjugation or non-subjugation to the proposed mandate was not randomly determined, we employed a sharp RDD3 to examine a causal relationship between regulatory subjugation and abnormal stock market returns. RDD is an econometric technique used to make causal inferences (Cuñat et al., 2012). RDD allows drawing causal inferences about the effect of a treatment by comparing outcomes barely above and barely below a predefined cutoff or a discontinuous threshold (Calonico et al., 2014). In our study, the discontinuity arises because a minor difference in PAT around the INR 50 million threshold (or cut-off) gives rise to a discrete change (or a discontinuity): a firm with a PAT of INR 50 million will be subjugated to the CSR mandate, whereas a firm even marginally below this threshold (e.g., PAT of INR 49.99 million) will not be subjected to it. These close call firms – whose PAT is barely above or below the 50 million cut-off – offer a source of random and exogenously determined variation (Calonico et al., 2014) in treatment (i.e., whether a firm is subjugated to the CSR mandate or not). This random variation can allow us to estimate the causal effect of subjugation to the CSR mandate on a firm’s stock market returns. Abnormal stock return (denoted as ARit) for firm i within an event time-window t can be expressed as a function of its subjugation to the CSR mandate (denoted as Subji) and a set of control variables such that:

………. (1)

While the above expression of RDD gives a precise estimate, it comes at the expense of non-close call firms that are not in the neighborhood of PATit=INR 50 million, but are still subjugated to the proposed mandate. To overcome this limitation and to include in our RDD all firms subjugated to the mandate, we approximate the continuous relationship between ARit and PATit with a polynomial in PATit and allow different polynomials for observations on the left-hand side of the threshold (PATit,and on the right-hand side of the threshold and . Our RDD specification in this case is expressed as follows:

…….. (2)

*Variable definitions*

We estimated the expected – and subsequently – abnormal stock returns using the four-factor model (Carhart, 1997). The four factors were the market return, the size factor, the book to market factor and the momentum factor. The coefficients of the four-factor model were estimated by OLS regression using an estimation period of 250 days (including a 20-day period prior to the event date). In addition, we included the three year4 average of the following as control variables: profits after tax, sales, total assets5, net worth6, advertising expenses, marketing expenses, R&D expenses, and previous CSR expenses.

*Testing RDD assumption – can a firm’s subjugation to India’s CSR mandate be considered randomized?*

In order to establish causality, it is critical to rigorously test whether a firm’s subjugation to the mandate was as good as a random treatment around the threshold (PAT>= 50 million INRs). In this vein, we conducted two separate tests of randomness. First, we conducted a McCrary (2008) test for assessing continuity and smoothness in PAT around the eligibility threshold. Figure 1 shows graphically the results of the McCrary test. We found no evidence of discontinuity as the null hypothesis of no discontinuity was not rejected (p-value=0.791).

----Insert Figure 1 about Here-----

Second, we tested for orthogonality in firm characteristics to examine if there were any preexisting systematic differences among firms before the regulatory announcement. We included dependent variable and all control variables in this analysis and found no systematic differences between any variables for firms that were subjugated to the CSR regulation and those that were not. The McCrary test and the orthogonality test together provide strong evidence that firms’ subjugation to the CSR mandate can be considered to be exogenously determined, satisfying RDD assumptions.

**Results**

We tested our first hypothesis (H1) using a regression and a graphical analysis. For the regression analysis, we used non-parametric and parametric specifications to estimate abnormal stock market returns around: (i) the threshold of PAT=50 million, and (ii) for the full sample, respectively (Table 1).

------Insert Table 1 about here------

For non-parametric estimates (i.e., local linear effects), we report two models using two different bandwidths. For model (1), we deployed the IK bandwidth developed by Imbens and Kalyanraman (2012) which yielded a bandwidth of ±12.5 million around the PAT=50 million threshold and a sample of 185 firms. For model (2), we deployed the CCT bandwidth developed by Calonico et al. (2014) which yielded a bandwidth of ±13.8 million around the PAT=50 million threshold and a sample of 198 firms7. The IK method provides an asymptotically optimal bandwidth using a data-dependent method. The CCT method relies on constructing confidence intervals based on bias-corrected local polynomial estimators. Combining the two methods yields more optimal estimations than a single method (Baskaran & Hessami, 2018) or using an alternative method such as standard plug-in and cross-validation (Calonico et al., 2014).

Results (Table 1) show that the difference in abnormal returns is 2.22 percent and 1.96 percent for the IK and the CCT bandwidths, respectively. Both results are statistically significant at 1 percent. Thus, we can infer that firms in the neighborhood of PAT=50 million threshold that would be bound by the CSR mandate received higher abnormal returns as compared to firms that would not be bound by it. For parametric estimates (i.e., full-sample effects), we first estimated abnormal returns expressed by the econometric specification given in equation 2 while controlling for polynomials of order two on the left side and order four on the right side of the PAT=50 million threshold. Column 4 estimates the difference in abnormal returns between firms that would be bound by the CSR mandate and firms that would not be bound by it. The difference is 1.30 percent (at 5% level of significance). Based on these results, we conclude that subjugation of firms to the CSR mandate resulted in higher stock market returns. Not only is the difference in abnormal returns statistically significant between subjugated and non-subjugated in both bandwidths near the cut-off threshold (2.22% and 1.96%), but it is also significant for the entire sample in the presence and absence of other controls (1.29% and 1.30%, respectively). These results are graphically presented in Figure 2.

----Insert Fig 2 about here----

In order to check the robustness of these results, we repeated non-parametric and parametric regressions for a three and a five-day event window to estimate cumulative abnormal returns, CAR (-1, +1), and CAR (-2, +2), respectively (Table 2). Similar to the results obtained for the event date, abnormal stock returns were higher for firms that would be bound by the CSR mandate for alternative event windows. These results are intact for local linear and full sample estimations.

------Insert Table 2 about here-----

Combining results from regression tests involving non-parametric and parametric coefficients (with and without control variables), the graphical test, and robustness checks involving alternative event windows, we find convincing support for the first hypothesis (H1) suggesting that firms that were to be bound by India’s CSR mandate had higher abnormal returns compared to firms that were not to be bound by it.

To test hypotheses 2, and 3, i.e., to examine whether the effect of the regulatory announcement varied for foreign versus domestic firms, and for firms in controversial versus non-controversial sectors, we analyzed cross-sectional heterogeneity in our data through the following RDD and D-I-D specification:

…..(3)

where Foreign is a dummy variable which takes the value 1 if the firm has more than 50% foreign ownership and 0 otherwise; Controversial is a binary variable that takes the value 1 if a firm belongs to an environmentally high impact sector identified using three-digit National Industrial Classification (NIC). The coefficients in the row vector () control for firm-level characteristics.

We estimated difference-in-differences (D-I-D) class of estimates for the two interaction terms in the RDD specification above. For the first interaction term (Subj x Foreign), we estimated the difference in abnormal returns between the following two groups of firms: (a) foreign firms subjugated to CSR mandate versus foreign firms not subjugated to it, and (b) domestic firms subjugated to the CSR mandate versus domestic firms not subjugated to it. Thus, the D-I-D estimator measures the extent of difference in the effect of the CSR mandate on abnormal returns between foreign firms and domestic firms.

The mathematical equation below presents the computation of D-I-D estimator:

D-I-D-- …………(4)

D-I-D

Therefore is the D-I-D estimator that is used to test for H2. The test for H3 is similarly conducted by estimating the difference in abnormal returns between the following two groups of firms: (a) mandate subjugated firms in controversial sectors (i.e., environmentally high impact industries) versus non- subjugated firms in controversial sectors, and (b) mandate subjugated firms in noncontroversial sectors (i.e., environmentally benign industries) versus non-subjugated firms in noncontroversial sectors. In this case, the D-I-D estimator is denoted by

-----Insert Table 3 about here------

The results from equation (3) are given in Table 3. Columns (1) and (2) present non-parametric estimates of D-I-D for the following variables: (a) Subj x Foreign; and (c) Subj x Controversial. Estimates of for IK and CCT bandwidths in columns (1) and (2) are both positive and significant (i.e., 2.72 percent and 2.82 percent respectively). The size of parametric estimates (columns (3) and (4)) are also positive and significant (1.66 percent for both, without and with controls). These results suggest that the increase in abnormal returns due to subjugation to the CSR mandate was higher for foreign firms than for domestic firms. Thus, we find support for H2. In testing for H3, where we examine the effect of the proposed CSR mandate on firms in controversial (i.e., environmentally high impact) industries, we found that estimates for Subj x Controversial for IK and CCT bandwidths were -2.88 percent and -3.08 percent. These estimates suggest that the increase in abnormal return for CSR mandate subjugated firms in controversial (i.e., environmentally high impact) sectors was lower than for mandate subjugated firms in non-controversial (i.e., relatively benign) sectors. Parametric estimates (columns 3 and 4 in Table 3) were also negative and statistically significant (-0.94 percent without controls; and -0.92 percent with control). Therefore, H3 was not supported. Graphically, results for H2 and H3 are plotted in Figures 3a and 3b using the IK bandwidth of ±12.5 million.

----Insert Figures 3a and 3b about here----

**Discussion**

We launched this study to understand the effect of India’s CSR mandate on firm value. Our econometric analyses provide conclusive evidence that all firms bound with this mandate achieved higher value than firms that were not bound with the mandate (H1). In and of itself, this result is intriguing because it contravenes the prevailing assumption in neoliberal view of CSR that investors should view a regulatory intervention negatively.

What benefits might investors expect for firms from this regulation? Unfortunately, our dataset does not offer a definitive answer to this question. However, based on prior theory we speculate at least two possible underlying benefits. The first is the reduction in ambiguity. Markets prefer stability and may accept regulations that impose short-term costs if they reduce uncertainty (Keohane, 1982). Despite a long tradition of philanthropy by a few Indian business groups (Dhanesh, 2015; Sundar, 2000), CSR as a formalized practice was in a nascent stage when the CSR mandate was introduced in 2014. Thus, it is plausible that investors’ support was essentially for structuration of CSR through a regulatory edict reducing the ambiguity about what comprises CSR. However, this support could also be due to an affirmation – a clarity – that societal expectations of corporations adopting formal CSR practices were rising. Sarkar et al. (2021) find that societal expectations of CSR have indeed been rising in India and CSR performance has over time emerged as an important determinant of brand reputation.

That said, while ambiguity reduction may have led to a favorable stock market reaction, the fact that the CSR mandate left at firms’ discretion how they will choose to spend the stipulated money could have been the underlying reason for a favorable stock market reaction. Firms could improve their social and environmental performance or simply continue business-as-usual while donating the money to an external agency. The latter is not so encouraging from a societal impact perspective, but this could well have been a reason for investors’ favorable reactions; a 2% expenditure would essentially “buy” firms a favorable image without having to transform business practices.

The second explanation for favorable stock reactions to the CSR mandate is the potential legitimacy gain that a regulatory cover could provide to a practice that is otherwise met with skepticism. Given India’s historical embrace of a Soviet style mixed-economy model, private companies have not been viewed as genuine champions of social welfare. Societal and environmental protection has been the responsibility of the state and the neoliberal, market-driven approaches have not gained the valence they have in some countries such as the United States (Panwar et al., 2018). Rampant private sector corruption in India (Battacharyya & Ghose, 1998; Vittal, 2003) may have further reinforced a generalized skepticism of CSR. A CSR mandate, however, may offer the veneer of regulative legitimacy (Deephouse & Suchman, 2008) in a context in which CSR adoption, historically, lacked both moral or cognitive legitimacy (Suchman, 1995). Since, many large Indian corporations, especially those involved with overseas markets or investors, would have already been engaged in some form of CSR due to institutional pressure, legitimization of their CSR efforts through a mandate would enthuse their investors. The support for H2 bolsters this speculation.

The lack of empirical support for hypothesis 3 is striking. A regulatory edict of CSR assurance does not appear to alleviate the hypocritical perceptions of CSR efforts of controversial sector firms that investors may be wary of. This finding aligns with the recent work by Suddaby and colleagues (2017) that legitimation is a matter of comparative assessments and that there are thresholds that must be crossed before a practice becomes legitimate. In light of this argument, we speculate that controversial sector firms are so deeply mired in societal skepticism of CSR efforts that even compliance with regulatory edicts would be viewed with skepticism.

Beyond the specifics of the results of our empirical analyses, the enactment of the Indian CSR mandate – and the emergence of soft CSR regulations generally – may signify a broader phenomenon. CSR is a normative practice that emerged out of a growing tension between large multinational corporations (MNCs) and civil society organizations (social movements, environmental activists, consumer interest groups) devoted to resisting and constraining the growing hegemonic power of MNCs as they expanded beyond the regulatory authority of the nation state. However, MNCs quickly adopted CSR and adapted its original intent to serve as a useful extension of forms of private regulation between corporate actors that, at the transnational level, has grown to challenge the regulatory power of the nation state (Bartley, 2007). CSR has quickly become integrated into the core managerial practices of global corporate actors that use their scope and scale to impose transnational normative practices on local actors (Vogel, 2005). Not only have MNCs, thus, become powerful legitimating agents for CSR (Brammer et al., 2012), in the process of diffusing CSR practices globally, they have transformed CSR “from being associated mainly with displays of good “corporate citizenship” to a scientifically validated form of corporate risk management and, more generally, into a perceived commercial asset” (Shamir, 2011, pp. 314).

Soft CSR regulations, thus, may reflect a practical compromise between the diminishing coercive authority of the nation state and the growing normative authority of the MNC. It provides a broad legal framework that establishes the intent and parameters of CSR, imposed by the state, but grants considerable agency and discretion as to how the intent might be manifested by the corporation. Corporate actors are granted considerable license to interpret and translate the intent of the regulator. Thus, soft CSR regulations occur in the context of an uneasy truce between the nation state, with coercive authority over the MNC in terms of its activities within the jurisdiction of government, and a growing transnational regulatory framework, controlled by private corporate actors and informed by a somewhat paradoxical mix of morality and capitalism that has come to define global neoliberalism (Djelic & Etchanchu, 2017). Given the ultimate benefits that firms are likely to derive from such arrangements, it is unsurprising that investors supported India’s CSR mandate even when, prima facie, it is a regulatory burden with significant associated expenditures for firms.

What are the future prospects of this uneasy truce between MNC’ and nation states in the context of CSR? Trubek et al. (2005) argue that soft regulations may represent a first step on the path to more coercive forms of hard law. This hypothesis is supported by our empirical context. After six years of successful experimentation with a comply-or-explain form of soft CSR regulation, the Government of India amended the law in 2019 to include the following penalty clause8:

“The Companies (Amendment) Act replaces the sub-section concerning penalties under Section 135 of the Companies Act, which was inserted by the Companies (Amendment) Act 2019. The new sub-section provides that if companies default in complying with Sub-sections 5 (concerning CSR expenditure amounts) or 6 (concerning the transfer of unspent CSR expenditure amounts) of Section 135 of the Companies Act:

* they will be liable to a penalty of twice the amount required to be transferred to the fund specified in Schedule VII of the Companies Act or the unspent CSR account, as the case may be, or Rs. 10 million, whichever is less; and
* every officer of the company who is in default will be liable to a penalty of one-tenth of the amount required to be transferred by the company to such fund as specified in Schedule VII or the unspent CSR account, as the case may be, or Rs 200,000, whichever is less.”

Notably the vast majority of Indian firms bound by the CSR mandate were compliant. The recent introduction of the punitive clause therefore is not an indication of inaction but perhaps a signal of nation state’s reassertion of its authority. It is then understandable that Gatti et al. (2019) ask if we are moving beyond voluntary CSR and will see more and more stringent involvement of the nation state in guiding CSR practices.

Our results also have strong policy implications. Enacting soft CSR regulation can be an effective approach in those societies where, due to historical or institutional factors, CSR remains a niche activity in which only a handful of firms participate. Soft CSR regulations can make the soil sufficiently fertile for markets to support widespread uptake of CSR. This raises a critical question though: why bother with CSR: why not simply tax firms and divert the revenue collected for social development purposes? This may indeed be an intuitively convenient arrangement but it could deter foreign investment because many developing countries are already rated poorly on the regulatory ease of doing business; adding another tax would worsen those perceptions. In contrast, CSR expenses, even when legally mandated, would align with ethos of most MNCs. Soft CSR regulations – as opposed to a social development tax – would help domestic companies too. These requirements will enhance CSR capabilities of domestic companies that, in turn, can aid in future internationalization efforts of domestic companies. Marano and colleagues (2017) show that prior CSR experience can help domestic companies in overcoming liability of origins when they enter foreign markets because of their improved ability to connect with global audiences. Thus, a soft CSR regulation is a more strategic approach than a social development tax both to attract foreign investment and to enable domestic companies to enter and compete in foreign markets.

**Limitations and future research**

Notwithstanding the novelty of our findings and their implications for CSR research and practice, the study suffers from several limitations. Firstly, even though we offer conclusive evidence in support of our results, these are based on a unique quasi-natural experiment specific to India. India’s context is unique due to its colonial history, several decades of Soviet style economic framework followed by a massive wave of privatization that led to an explosive yet maldistributed economic growth, rampant private sector corruption, huge influx of foreign companies, and a visible deterioration in social and environmental systems. Thus, despite the promise of generalizability through information-rich critical cases (Flyvbjerg, 2001), we resist the temptation to say that our findings are generalizable beyond the unique Indian context. Future studies can replicate this design in other contexts and conduct comparative analysis to understand whether a similar CSR mandate would produce similar effects on firm value in other contexts. Indeed, future studies should also consider the effect of other forms of soft CSR regulations on firm value.

From a methodological perspective, it is critically important to note that event studies are inherently problematic in the context of a legislative evolution. Because legislative processes go through an iterative process of multi-stakeholder negotiations, precise determination of an event date that produces an exogenous shock is tenuous. We followed “best practice” prescriptions of conducting an event study and we are confident that the soft nature of India’s CSR regulation became clear on our chosen event date but we cannot assert that firms and investors did not have an inkling of what was coming. Still, the fact that stocks movement is econometrically distinct for CSR mandate subjugated and non-subjugated firms shows that investors, regardless of whether they may have expected it or not, reacted to the finalization of the regulation in a soft form. That said, our study results should be interpreted in light of persistent unsettled debates about methodological concerns in event studies (Meznar et al., 1998). The choice of a different event date leads to completely different results. It is then not surprising that Manchiraju and Rajgopal (2017) study, which chose different event dates than ours, found opposite effects on firm value. They found that India’s CSR mandate diminished firm value; we find that it enhanced firm value.

**Conclusion**

Governments routinely influence CSR practices through regulatory edicts but the literature predominantly views CSR as a purely discretionary activity that firms pursue above and beyond legal requirements. This sharp distinction is born out of an America-centric, neoliberal view of CSR. However, it overlooks a plethora of regulatory interventions that make CSR practices partially regulated and partially self-regulated. As the dichotomy between regulation and private-regulation as distinct governance choices is blurring, our finding that a regulatory mandate to guide CSR practices improves firm value is a testament to a future wherein the role of state in guiding CSR practices will become more salient.

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**Endnotes**

We conducted robustness check by testing our results for the other two criteria. Results are robust to criteria selection.

2 We used three-digit NIC code to identify firms from the controversial industries. These include oil & gas (exploration and extraction), coal-based power companies, mining & quarrying, and forestry.

3 We implement a sharp- not a fuzzy- RDD because we examine the intention-to-treat (ITT) effects of the announcement of the proposed CSR regulation, not the average treatment on treated (ATT) effect of its actual implementation.

4 We take three-year average of all control variables to correspond with the regulatory announcement which, too, is based on three-year average of firm’s PAT

5 Total assets is the book value of assets.

6 Net worth as =[{Total capital -Paid up Preference Capital}+ {Share Application money and suspense-(Share Application money and advance- Equity)-Preference Capital suspense account}+{Reserves and Funds-Revaluation Reserves-Miscellaneous Expenses not written off)

7 We do not consider alternative bandwidths because they yield in too small sample sizes to make any meaningful inference.

8 https://www.mca.gov.in/Ministry/pdf/AMENDMENTACT\_01082019.pdf



Figure 1: Graphical results of the McCrary (2008) test for continuity in Profit After Tax around the applicability threshold for the CSR mandate

Note: The horizontal axis indicates PAT and the vertical axis represents the logarithm of the estimated density



Figure 2: Graphical representation of abnormal stock market returns on the event date for firms bound and not bound by the CSR mandate

Note: The vertical axis represents abnormal returns (percentage) on the event date. The horizontal axis indicates three year averaged profit after tax (PAT). The solid line fits the predicted values of abnormal returns to the right and left of the threshold of PAT= INR 50 million.



{D1}

{F1}

{D2}

{F2}

Figure 3a: Predicted Abnormal Returns for CSR Mandate Subjugation \* Foreign Firms

Note: The measure of the expression (F2 - D2) - (F1 - D1) from this figure is same as the coefficient of Subj \* Foreign Firm ( as reported in column 1 of table 3



{NC2}

{C2}

{C1}

{NC1}

Figure 3b: Predicted Abnormal Returns for (CSR Mandate Subjugation \* Firms in controversial industries)

Note: The measure of the expression (C2 - NC2) - (C1 - NC1) from this figure is same as the coefficient of Subj \* Controversial ( as reported in column 1 of table 3

Table 1: Estimated Abnormal Returns around the Threshold of Applicability of Proposed CSR Mandate

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variables** | **Non-Parametric Estimates** | | **Parametric Estimates** | |
| **(Local-Linear Effects)** | | **(Full Sample Effects)** | |
| **IK Bandwidth (PAT ± 12.5)**  **(1)** | **CCT Bandwidth (PAT ± 13.8)**  **(2)** | **Full Model**  **(3)** | **Full Model with controls**  **(4)** |
| Subj | 2.22\*\*\*  (0.59) | 1.96\*\*\*  (0.48) | 1.29\*\*  (0.44) | 1.30\*\*  (0.51) |
| Controls | Yes | Yes | No | Yes |
| Polynomial in PAT | No | No | Yes | Yes |
| Observations | 185 | 198 | 1531 | 1526 |

Note: Subj is a binary variable that takes the value 1 for firms that were subjugated to the CSR mandate & 0, otherwise; Robust standard errors are in parenthesis and clustered at the industry level; \*, \*\*, and \*\*\* denote significance at 10%, 5%, and 1% level, respectively.

Table 2: Robustness Checks

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Outcome Variables** | **Non-Parametric Estimates** | | **Parametric Estimates** | | |
| **(Local-Linear Effects)** | | **(Full Sample Effects)** | | |
| **IK Bandwidth (PAT ± 12.5)**  **(1)** | **CCT**  **Bandwidth (PAT ± 13.8)**  **(2)** | **Positive Returns**  **(3)** | **Full Model**  **(4)** | **Full Model with controls**  **(5)** |
| CAR[-1,+1] | 4.25\*\* | 3.87\*\* | 0.25\*\* | 3.07\*\* | 3.37\*\*\* |
| (1.99) | (1.88) | (0.103) | (1.29) | (1.41) |
| CAR[-2,+2] | 6.03\*\* | 5.13\*\* | 0.16\*\* | 1.63 | 1.95\*\* |
| (2.44) | (2.34) | (0.059) | (0.91) | (0.88) |
| Polynomial in PAT | No | No | Yes | Yes | Yes |
| Controls | Yes | Yes | Yes | No | Yes |
| Observations | 185 | 198 | 1526 | 1531 | 1526 |

Note: CAR [-1, +1] and CAR [-2,+2] are 3 and 5 day event windows. Robust standard errors are in parenthesis and clustered at the industry level. \*, \*\*, and \*\*\* denotes significance at 10%, 5%, and 1% level, respectively

Table 3: Difference-in-Differences Estimates of Foreign Firms and for Firms in Controversial Industries

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variables | **Non-Parametric Estimates**  **(Local-Linear Effects)** | | **Parametric Estimates**  **(Full Sample Effects)** | |
| **IK**  **Bandwidth**  **(PAT ± 12.5)**  **(1)** | **CCT Bandwidth (PAT ± 13.8)**  **(2)** | **Full Model**  **without controls**  **(3)** | **Full Model with controls**  **(4)** |
| Subj | 1.10  (0.93) | 0.94  (0.83) | 1.19\*\*  (0.47) | 1.18\*  (0.52) |
| Foreign | -1.61  (1.22) | -1.67  (1.29) | -0.68  (0.55) | -0.66  (0.54) |
| Controversial | -0.94\*  (0.47) | -0.68  (0.44) | -0.45\*\*  (0.12) | -0.42\*\*  (0.11) |
| Subj \* Foreign | 2.72\*\*  (1.19) | 2.82\*\*  (1.14) | 1.66\*\*\*  (0.39) | 1.66\*\*\*  (0.38) |
| Subj \* Controversial ( | -2.88\*\*\*0  (0.45) | -3.08\*\*\*  (0.44) | -0.94\*\*\*  (0.16) | -0.92\*\*\*  (0.17) |
| Polynomial in PAT | No | No | Yes | Yes |
| Observations | 185 | 198 | 1531 | 1526 |

Note: Foreign is a binary variable that takes the value 1 for firms with foreign ownership and 0 for firms with domestic ownership. Controversial is also a binary variable that takes value 1 for firms located in industries with high social and environmental impact and 0 for firms in other sectors. The terms (Subj\*Foreign) and (Subj\*Controversial) are difference in differences measures of the moderating effect of the proposed CSR mandate on foreign and controversial sector firms. Robust standard errors are in parenthesis and clustered at the industry level. \*, \*\*, and \*\*\* denote significance at 10%, 5%, and 1% level, respectively.