# INSTITUTIONAL TRANSITION, PERFORMANCE DISSATISFACTION, AND CSR MANDATE FULFILLMENT

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# Abstract

This study integrates institutional transition theory and the behavioral theory of the firm (BTOF) to understand fulfillment of institutionally mandated CSR spending requirements. We examine how dissatisfactory financial performance feedback influences a firm's decision to fulfil government-set CSR spending goals. Using data for 1,544 firms in India, dynamic panel data modelling, and difference-in-differences method, we find that failures to meet both historical aspiration and social aspiration levels lead firms to exhibit threat rigidity and fulfil mandatory CSR spending objectives. Firms spend less proportion of their profits on mandatory CSR activities when they: (1) meet historical aspiration level but fail to meet social aspiration level, and (2) meet social aspiration level but fail to meet historical aspiration level. Theoretical augmentations and policy implications are also discussed.

**Keywords**: mandatory CSR policy; corporate social responsibility; institutional transitions; behavioral theory of the firm; performance feedback.

# Institutional Transition, Performance Dissatisfaction, and CSR Mandate Fulfillment

# **INTRODUCTION**

Contemporary concerns relate to sustainability and how firms may enhance their environmental, social and governance (ESG) practices to contribute to society (Ferlie, et al., 2010; Ferraro, et al., 2015; George, et al., 2016; Li and Wu, 2020). As a fundamental pillar of ESG, corporate social responsibility (CSR) —defined as a firm's responsibility toward the betterment of society (Frederick, 1994)— plays a key role in serving society's needs and interests. Firms' CSR practices enhance sustainability (Jamali & Carroll, 2017; Renouard & Ezvan, 2018; Sodhi et al., 2022) and offer instrumental benefits to firms (Agunis & Glavas, 2012; Barnett et al., 2020). Such benefits are the key drivers behind firms' CSR efforts, and include achieving better financial performance (Awaysheh et al., 2020; Chen et al., 2018; Flammer, 2015; Godfrey et al., 2009; Koh et al., 2014; Matsumura et al., 2014; Waddock & Graves, 1997; Zhao & Murrell, 2016), legitimacy (Bansal & Roth, 2000; Campbell, 2007; Detomasi, 2008; Jones, 1999; Liang & Renneboog, 2017), and access to resources (Gao & Hafsi, 2015; Marquis & Qian, 2014).

Concomitantly, governments influence firms' CSR efforts (Gond et al., 2011, Knudsen & Brown, 2015, Marquis & Qian, 2014), and these influences may be accompanied by wellenforced CSR regulations (Matten & Moon, 2008; Vogel, 2010). The institutional mandating of firms to perform CSR activities is a newer phenomenon (Knudsen & Moon, 2022; Waagstein, 2011). Contrary to the assumption that CSR is voluntary (Carroll, 1999; Dahlsrud, 2008), laws and institutional frameworks now influence a firm's CSR behavior (Knudsen et al., 2015; Knudsen & Moon, 2022; McBarnet et al., 2007). However, it remains less clear if public goals, often predicated by government aims, translate into CSR outcomes (Ferlie, et al., 2010), and we know relatively little about how government's mandates influence firms' CSR efforts.

Varied CSR-influencing institutional frameworks exist. Some countries require firms to only *disclose* their CSR actions (Ioannou & Serafeim, 2017; Jackson et al., 2020). Three countries—India, Indonesia, and Mauritius—have implemented policies that mandate firms to spend a certain portion of profits on CSR activities, thereby involving firms in mitigating socio-economic problems in society.

Institutions, also known as "rules of the game", are subject to changes. For instance, governments may change policies to impose new requirements on firms (Doh et al., 2017; Hoskisson et al., 2013; Meyer & Peng, 2016; North, 2005; Ostrom, 2005). Formal institutions, often devised and implemented by the government, may interact significantly with informal institutions, which consist of norms and cognitive behavior (Peng, 2003; Ostrom, 2005). Institutional transitions may have structural and behavioral impacts on firms (Kathuria et al., 2023; Majumdar, 2021; North, 2005; Ostrom, 2005; Peng, 2003), as they alter lenses through which firms analyze their environments (Crawford & Ostrom, 1995; Hodgson, 2004). Such transitions impact sensemaking in firms, and subsequently, affect the goals and strategies that the firms choose and implement (Weber & Glynn, 2006).

In parallel, as per the behavioral theory of the firm (BTOF), firms choose which problems to address, and they pay sequential attention to goals with "profitability as the highest priority goal" (Graham et al., 2005; Greve & The, 2018: 22). CSR goals based on 'other-regarding' motives may be contingent on meeting satisfactory financial performance metrics. Governments' push toward social responsibility via CSR mandates implies that firms need to add CSR goals on their agenda and spend resources on CSR projects, affecting shareholder returns and investments. Therefore, fulfilling CSR mandates may be burdensome if a firm fails to meet its financial aspirations. The question we address in this study is whether firms with dissatisfactory financial performance commit less resources to CSR spending targets set by government mandates?

Firms evaluate current performance relative to reference points called levels of aspiration (LOA). These points are formed by using prior performance, called "historical aspiration", and by benchmarking peer firms' performance called "social aspiration" (Cyert & March, 1963, Greve, 1998, Harris & Bromiley, 2007). Firms perceive their own performance as "good enough" when it exceeds the LOA and as not good enough or "dissatisfactory" when it falls below LOA (Cyert & March, 1963).<sup>1</sup> Both historical and social performance comparisons may have differential effects on firms' CSR engagement (Saridakis et al., 2023). Yet, how firms respond to an institutional transition from voluntary to mandatory CSR, given the existence of possible simultaneous dissatisfactory financial performance feedback, has not been addressed (Greve & The, 2018).<sup>2</sup>

Considering performance relative to an aspiration is distinct from a mere absolute performance level consideration.<sup>3</sup> The distinction is important, as it accounts for cognitive elements driving comparisons of firm behavior. Formal institutional transition complemented by the entrenched informal organizational cognitive schema, and a focus on financial aspirations,

<sup>&</sup>lt;sup>1</sup> LOA is the minimum level of accomplishment at which an outcome is considered satisfactory and below which it is considered unsatisfactory (March & Simon, 1958; Schneider, 1992).

<sup>&</sup>lt;sup>2</sup> Rowley et al. (2017) show that failing to meet LOA reduces a firm's propensity to adopt robust corporate governance practices. Mishina et al. (2010) study the relationship between performance above LOA and organizational misconduct

<sup>&</sup>lt;sup>3</sup> Prior research has illustrated the impact of a firm's financial performance and slack resources on CSR decisions (Aguinis & Glavas, 2012; Bansal, 2003; Waddock & Graves, 1997).

may play major roles in shaping firms' CSR spending responses. We posit that the institutional transition in India led by CSR mandate will impact how organizations cognitively evaluate their performance relative to historical and social aspirations, subsequently affecting the proportion of profits they commit to CSR activities.

In a novel analysis, we integrate concepts from institutional transition theory (Crawford & Ostrom, 1995; Doh et al., 2017; Hodgson, 2004; Hoskisson et al., 2013; Kathuria et al., 2023; Meyer & Peng, 2016; North, 2005; Ostrom, 2005) and the BTOF (Cyert & March, 1963; Greve, 1998; Greve & The, 2018: 22; Harris & Bromiley, 2007; Leibenstein, 1950; March & Simon, 1958). Based on these concepts, we develop a unique perspective to assess how institutional transitions and financial aspirations concurrently affect firms' actions in using fiscal resources (Dorobantu et al., 2017; Milgrom et al., 1990; Milgrom & Roberts, 1992; Ostrom, 2005) to fulfil CSR spending mandates.

We make two key contributions in the paper. Our primary contribution is to make the role of the CSR institutional mandate theoretically central. Research examining the relationship between performance feedback comparisons (as driving behavior) and CSR spending (as an outcome of institutional transitions) is rare,<sup>4</sup> and how performance feedback affects firms' meeting government-set CSR goals is unexplored. Addressing this question is critical, as several countries have recently implemented mandatory CSR policies. Yet, the academic terrain of mandatory CSR remains uncharted (Gatignon & Bode, 2023). Institutional mandates, as a research construct, have key theoretical implications on firm behavior (Crawford & Ostrom,

<sup>&</sup>lt;sup>4</sup> The study by Nason et al (2018) is one of the few that examines how social performance feedback influences firms' behavior. In addition, studies by Arora and Dharwadkar (2011) and Deng and Long (2019) do not account for distinctive effects of historical and social aspirations at any point in time.

1995; Hoskisson, et al., 2013). We explain how institutional and behavioral factors mutually induce firms, via comparative performance linkages, to comply with government policies.

Second, it furthers the research on BTOF in two ways. We look at the influence of *both* social and historical aspirations on decision making in firms—a direction that various scholars have recently called to shed light upon (Jordan & Audia, 2012; Joseph & Gaba, 2015; Lucas et al., 2018). We examine multiple scenarios that may lead to a dissatisfactory financial performance. A firm may fail to meet any one or both of its social and historical performance aspirations, leading to varied levels of dissatisfaction. Understanding the distinct effects of historical and social aspirations will develop a more holistic view on how dissatisfactory performance feedback influences decision-making in firms.<sup>5</sup>

BTOF suggests that a firm's managers (dominant coalition) select strategic goals following negotiation with actors inside and outside of the firm. These goals are agreed upon internally by the management. In contrast, the requirement that firms allocate a certain portion of profits on CSR activities is not an internal goal, it is an external goal set by the government instead. How firms respond to CSR goals that are imposed by actors outside the firm, given dissatisfactory financial performance feedback has not been addressed (Greve & The, 2018).

## **THEORY AND HYPOTHESES**

#### **Firms and CSR Mandates**

Voluntariness is central to CSR activities (Carroll, 1999; Dahlsrud, 2008). Many governments, however, now expect firms to play an active role in mitigating socio-economic

<sup>&</sup>lt;sup>5</sup> Despite the idea that firms use both historical and social aspirations to evaluate performance outcomes, prior BTOF work has mostly relied on single-referent aspiration to predict firm behavior (Argote & Greve, 2007; Bromiley & Harris, 2014). Recent studies (Jordan & Audia, 2012; Joseph & Gaba, 2015; Lucas et al., 2018) pay attention to the effects of both historical and social aspirations.

inequities and mandate firms to disclose CSR spending (e.g., Australia, China, Denmark, France, Malaysia, and South Africa) (Chen et al., 2018; Ioannou & Serafeim, 2017). In line with pro-CSR institutional transitions, India, Indonesia, and Mauritius, require firms to spend a proportion of profits on CSR activities. Such regulations stand in stark contrast to the voluntary conception that scholars have about CSR (Knudsen et al., 2015). Generally, governments implement a "soft" CSR policy by giving firms a choice to either "comply" with prescribed CSR spending or "explain" why they could not spend. In India, profitable and large firms must spend a minimum of two percent of profits on CSR activities on a comply or explain basis. When Indian firms fail to explain why prescribed CSR spending targets are not met, then penalties, such as fines up to \$36,000 and imprisonment of executives up to three years, apply.<sup>6</sup>

While a soft CSR policy enables firms to evolve to integrate CSR activities as core tasks, it allows firms to provide plausible non-compliance explanations. Firms set goals, categorize them in order of importance, and exhibit behavior in relevance to the chosen goals (Simon, 1947). In absence of significant non-compliance penalties, firms may discount the newly implemented mandate and consider CSR spending as an avoidable expense. Leveraging institutional transition theory and BTOF, we theorize that, because the priority of externally imposed and subordinate goal of mandatory CSR falls behind the profitability goal priority, failure to meet financial aspirations may induce firms to discount the potential consequences of breaching CSR norms. **Institutional Transitions, Mandated CSR Spending and the BTOF** 

<sup>&</sup>lt;sup>6</sup> Mandatory CSR enforcement may often be less stringent. Industry retaliation, firms' lack of resources and capabilities to pursue CSR goals, and difficulties in integrating CSR with the ways firms do business are some reasons why governments have taken a less stringent approach toward implementing mandatory CSR (Mitra & Schmidpeter, 2017; Subramaniam et al., 2017).

Institutional transitions change industry structure and push firms to seek new ways to conduct business. Such transitions, involving expenditure and compliance-oriented regulations, generate information asymmetries between regulators and firms (Baron & Myerson, 1982), create incentive incompatibility (Laffont & Tirole, 1993), and generate moral hazard (Dasgupta et al., 1979; Harris & Townsend, 1981) affecting conduct. The lack of incentives may lead to non-fulfillment of regulatory obligations, particularly when regulations are difficult to enforce (Armstrong & Sappington, 2007; Kwoka & Moss, 2012).

Institutional transitions drive assumption-making, value-inculcation, and beliefderivation processes (Clark & Karmiloff-Smith, 1993; Glaser et al., 2016). In response, firms decide to either follow (or not follow) new rules, adopt (or not adopt) new practices, and fulfill (or not fulfill) new obligations (Weber & Glynn, 2006). In the absence of designed incentives, some transitions may give rise to a narrow, penny-pinching, and self-oriented decisionmaking approach as normal firm behavior (Stiglitz, 2009; Wang & Murnighan, 2011).

Mandatory CSR policy, as an expenditure driver, is an institutional transition that may evoke economizing interpretations. A cost-cutting approach can become dominant (Kathuria et al., 2023), with self-interest seeking motives driving actions (Williamson, 1975) where managers seek to enhance firms' fiscal outcomes by slashing costs. Such actions may lead to selfishness cycles, destroy 'other-regarding' motives, and lead to lack of caring for the material benefits of others (Bolton & Ockenfels, 2000; Ostrom, 2005).

# **Performance Failure and Strategic Behavior**

Failure is a key inducement that triggers firms' strategic actions (Antonelli, 1989; Bolton, 1993; Kiesler & Sproull, 1982). BTOF suggests that dissatisfactory financial performance and

out-of-equilibrium profits (Antonelli & Scellato, 2011) may drive firms to conduct "problemistic search" for reducing the gap between actual performance and LOA (called "attainment discrepancy"). BTOF suggests that dissatisfactory financial performance and out-of-equilibrium profits (Antonelli & Scellato, 2011) may drive firms to conduct "problemistic search" for reducing the gap, or attainment discrepancy between actual performance and LOA, and mitigating the negative consequences of poor performance. In the process, improving financial performance as the primary goal takes precedence, while the goals deemed lower in priority are placed in the back burner. When financial performance LOA is met, lower priority goals, such as CSR spending, are attended to.

Financial performance below LOA may not imply that the firm has suffered losses in a financial year. Rather, performance may be perceived as dissatisfactory despite earning profits.<sup>7</sup> Historical and social aspirations can be considered as core reference points that firms use in evaluating their performance as satisfactory or dissatisfactory. Thus, firms may not view financial performance measures as absolute quantities, but make decisions, including those involving engagement with externally imposed CSR spending goals, based on relative perceptions about financial performance.

We theorize that dissatisfactory financial performance will lead firms to cut down on government-set CSR spending mandates, as doing so reduces the attainment discrepancy gap between actual performance and LOA. BTOF proposes that the problemistic search conducted after failure in meeting LOA starts in the vicinity of the problem itself (Cyert & March, 1963).

<sup>&</sup>lt;sup>7</sup> Relatedly, individuals interpret their own position as a gain or a loss subject to meeting or failing to meet reference points (Frank, 1935; Frank, 1941; Lewin et al., 1944; Kahneman & Tversky, 1979).

Reducing CSR engagement emerges as an obvious focus area (Posen et al., 2018) because CSR mandate may appear as a tax-like regulation. CSR spending becomes seen as an additional expense, as prior spending on CSR activities was voluntary. When firms must allocate a portion of profits to CSR activities, managers may perceive CSR spending as a loss because these could have been business reinvestments or dividend distributions. Thus, not all mandated firms will spend the same proportions on CSR activities.

Failure to meet aspirations is seen as a loss (Kahneman & Tversky, 1984), making management myopic (Thaler et al., 1997), and leading management to take risks, such as noncompliance with CSR mandate, as a loss recovery justification. A control illusion and irrational optimism prompts firms to focus on short-term gains (Arnold, 1986). Firms may choose such short cuts, including not being socially responsible (Kim et.al., 2018; Kotchen & Moon, 2012), even if they function against (regulatory and normative) stakeholders' expectations (Kim et al., 2018; Mani & Wheeler, 1998; Strike et al., 2006; Tang et al., 2015). Therefore, failing to meet performance aspirations can be a key factor leading to lesser fulfillment or non-fulfillment of CSR mandates.

Undertaking CSR tasks provides stakeholder validation. Firms not complying with the mandatory CSR policy would not be perceived as good citizens, potentially facing government and other stakeholders' wrath. Spending on CSR activities is critical for earning moral legitimacy (Marquis & Qian, 2014; Suchman, 1995). Conversely, managing liquidity is critical if firms are forced to allocate resources to CSR activities, given that such a commitment may be perceived as a loss not occurring with voluntary CSR (Dharmapala & Khanna, 2018; Manchiraju & Rajgopal, 2017). A higher tax rate or inflation increases tax evasion propensity (Crane &

Nourzad, 1986; Yaniv, 2013). Similarly, mandatory CSR may be perceived as an additional tax and subsequently encourage nonfulfillment.

# **Failure Scenarios**

Formal institutional rules and norms interact to alter informal cognitive lenses affecting behaviors, and performance feedback will be perceived consistent or inconsistent depending on three failure scenarios. Firms perceive their performance as dissatisfactory when they: (1) fail to meet both social and historical aspirations: consistent failure; (2) meet historical aspirations but fail to meet social aspiration: inconsistent failure; (3) meet social aspirations but fail to meet historical aspirations: inconsistent failure. These scenarios differ in the perceived degree of dissatisfaction and drive firms to fulfill CSR mandates to varied extents. Assessing three distinct effects of historical and social aspirations shows how dissatisfactory performance feedback influences behavioral factors driving firms' mandatory CSR fulfillment:

- *Case 1:* Firms will be most dissatisfied and, therefore, will spend the least on mandated CSR activities upon consistently failing to meet both social and historical aspirations.
- *Case 2:* Firms will be less dissatisfied and spend more on mandated CSR activities upon meeting historical aspirations while failing to meet social aspirations.
- *Case 3:* Firms will be least dissatisfied upon meeting social aspirations while failing to meet historical aspirations and will spend the most on mandated CSR tasks relative to the other two cases.

# **Consistent Failure (Case 1): Dissatisfaction in Meeting Both Historical and Social LOA.** BTOF postulates that firms become motivated to make strategic change when their performance falls below the LOA (Tyler & Caner, 2016). When firms fail to meet both historical and social

aspiration levels, performance feedback is clear; it is unsatisfactory as firms could neither match their peers' nor their own prior financial performance. Investors may exert pressures to improve financial performance even at the cost of skipping mandatory CSR activities. A performance decline relative to prior-year's performance, and an inferior performance relative to peers' performance, may be perceived as critical and the firm's sustainability is questioned.

A low performance firm struggles in resource allocation. Management would strive to gain pragmatic legitimacy from shareholders (Suchman, 1995), given that the first social responsibility of business is economic with other business roles driven by this goal (Carroll, 1979). The need to attend to this extreme failure scenario would be urgent. Cutting CSR expenses may be a gain, and prompt management to take the risk of defaulting from mandatory CSR goals. Because failing on both performance aspiration levels is most dissatisfactory, indicating that the firm has failed to shoulder its most fundamental economic responsibilities, mandatory CSR contributions will be the lowest for this category.

**Hypothesis 1 (H1/Case 1).** *Firms that fail to meet both historical and social performance aspiration levels will commit the least resources toward CSR activities.* 

*Inconsistent Failure: Dissatisfaction in Meeting Either Historical or Social LOA*. A firm may meet its historical aspiration level but fail to meet the social aspiration level (Case 2) or may meet the social aspiration level but fail to meet the historical aspiration level (Case 3). Because actual financial performance surpasses one aspiration level and fails in another, it is an *inconsistent* performance feedback. Firms may view inconsistent feedback as dissatisfactory and conduct problemistic searches to find solutions to improve performance (March & Shapira, 1987). Alternatively, firms meeting only one of the performance aspiration levels may consider

this to be satisfactory for enhancing self-esteem and maintaining status quo (Audia & Brion, 2007; Jordan & Audia, 2012; Lucas et al., 2018).

If firms are institutionally forced to meet external CSR objectives, they may not turn a blind eye toward the part of inconsistent feedback they fail in. Instead, owing to resources needed to meet CSR goals, firms would view inconsistent feedback objectively. CSR spending may be perceived as a loss, adding to the loss borne by failing to meet one or other of the social or historical aspiration levels. Consecutive losses may loom larger than a one-time loss and breed dissatisfaction (Thaler & Johnson, 1990). Mandated CSR spending after failure to meet one LOA (inconsistent feedback) can be dissatisfactory and motivate self-interested and myopic actions.

# Inconsistent Failure: Performance Above Historical but Below Social Aspiration Level

(*Case 2*). Performance above historical aspiration means that a firm may allocate more resources to enhance its own capabilities relative to its prior position. Surpassing prior earnings may generate slack that allows a firm to create fiscal buffers for the future (Iyer & Miller, 2008; Levinthal & March, 1981). Higher earnings imply that the firm may not only meet existing commitments toward shareholders and other stakeholders, but also invest in capabilities to outshine competitors.

Failing to meet social aspiration levels presents a different concern. Competitors are key strategic threats (Leibenstein, 1976; Schumpeter, 1942). Such social aspiration level failures reflect that competitors have outperformed the focal firm, thereby challenging the latter's sustainability or survival. A performance outcome above historical aspiration but below social aspiration may indicate growth in industry, and that the focal firm has failed to keep up with competitors to leverage the growth (Joseph & Gaba, 2015). It may also indicate that the focal

firm sells its product at narrower margins relative to competitors. In either case, the focal firm lags in realizing economic potential and will perceive its own performance as dissatisfactory.

Mandatory CSR policy, which requires firms to spend a certain portion of profits on CSR aggravates dissatisfaction. Surpassing historical aspiration level implies that the firm has managed to earn more profits in the given year. Thus, per mandatory CSR policy, it is required to spend a higher sum on CSR than it did the prior year. Firms may not appreciate increasing absolute CSR spending after failing to match peers' financial performance. The dissatisfaction, however, may be less intense than that of failing to meet both aspiration levels, as exceeding historical aspiration presents fiscal support for self-esteem enhancement (Blagoeva et al., 2020).

Firms are motivated to seek immediate future risks to compensate for dissatisfactory performance (McKendall & Wagner, 1997). A short-term orientation may motivate the firm to reduce CSR spending, as doing so improves its financial position through immediate gains. Performing better than in the prior year, but worse than its peers, may motivate the firm to take immediate action to compensate for lost sales. Firms that fail to match peers' performance may discount the potential negative consequences of reducing CSR spending and instead, seek risky short-term gains. Cutting the CSR budget, when CSR is mandatory, will invite scrutiny, stakeholder objections, and corporate reputation loss (Maden et al., 2012). Despite these risks, firms with dissatisfactory performance may deviate from CSR norms and reduce CSR spending to compensate for perceived loss. Thus,

**Hypothesis 2.** (H2/Case 2): *Firms that fail to meet social performance aspiration level while meeting historical performance aspiration level will commit lesser resources toward CSR* 

activities. Their resource commitment levels will be greater than resources committed when there has been failure to meet both social and historical performance aspiration levels.

#### Performance Below Historical but Above Social Aspiration Levels (Case 3).

Performance above social aspiration and below historical aspiration levels may signify demand decrease (Joseph & Gaba, 2015). Even if such firms have exploited options to be ahead of competition (Lucas et al., 2018), the sales lost relative to the prior year may appear larger than the gains relative to peer firms (Kahneman & Tversky, 1979). Failure to meet historical aspirations means that the firm has less resources than before. Resource-constrained firms are unlikely to meet CSR goals, especially when CSR policy applies on a comply or explain basis.

The dissatisfaction perceived when failing to meet historical aspiration level but meeting social aspiration level would be lesser. Outperforming other firms, and thereby reducing competitive threats (Baumol, 1982; Gilbert, 1989) could be comforting; though, in total, firms would be less profitable than in the past. Failure to meet prior performance, despite outshining competitors, can be attributed more to exogenous factors such as reduced market demand, and less to firm-specific endogenous reasons. Hence, firms would be more confident of performance recovery in the future.

Nevertheless, if firms fail to meet prior financial performance, stakeholders may desire that a firm's limited resources be used to improve operations instead of being used for charity (Wang & Qian, 2011). Stakeholders are even less likely to appreciate firms' CSR efforts if performing the activities is mimetic under mandatory conditions. The moral reputational capital (Godfrey, 2005; Godfrey et al., 2009) that CSR offers may be limited in a mandatory era because CSR spending is taken for granted. Overall pressures to improve financial performance during unfavorable market conditions may be high and reputational benefits are questionable under mandatory CSR, with both factors making it unlikely that firms will fulfill CSR mandates.

**Hypothesis 3.** (H3/Case 3). Firms that fail to meet historical performance aspiration level while meeting social performance aspiration level will commit less resources toward CSR activities. The resource commitment levels of such firms will be greater than resources committed when there has been failure to meet social performance aspiration levels while meeting historical performance aspiration levels.

# **DATA AND METHOD**

We use the Prowess database, managed by the Centre for Monitoring of Indian Economy (CMIE), to obtain data. The Indian Companies Act of 2013 requires that firms with profits more than Indian rupees (INR) 50 million (~\$714,000), or a net worth more than INR 5 billion (~ \$71.4 million), or revenues more than INR 10 billion (~ \$143 million) [referred as *affected* firms hereafter] spend a minimum of 2 percent of profits on CSR. Starting from April 2014, the affected firms either need to comply with the Act or explain why they could not spend the prescribed amount on CSR activities.

Additional reasons suggest India is an appropriate context. Stakeholders' CSR expectations may vary from one firm to another, and no standard rule prescribes how much resources a firm should allocate to CSR. Therefore, a scenario that allows for standardized CSR goals for firms is required. The Indian context meets this requirement, because the government prescribes that affected firms spend two percent of their profits on CSR activities. Setting a specific proportion toward CSR standardizes CSR spending expectations for firms. Irrespective of smaller or larger profits, firms demonstrate to stakeholders if they meet or fall short of the CSR requirement.

In addition, measuring resource allocation toward CSR activities remains a challenge for researchers. The data on firms' spending on CSR activities is either not readily available or limited to spending on philanthropy. The CMIE's Prowess database captures a variety of accounting variables, including CSR spending. The Prowess database has been used in studies published in management (Krishnan & Kozhikode, 2015), accounting (Manchiraju & Rajgopal, 2017), law (Dharmapala & Khanna, 2018), economics (Chhibber & Majumdar, 1999) and finance (Dinc & Gupta, 2011) research areas.

We exclude observations with missing profits, sales, and net worth in the sample because these characteristics determine whether a firm is required to engage in CSR, as per the Indian Companies Act 2013 (Manchiraju & Rajgopal, 2017). Following Vissa et al. (2010), we exclude state-owned firms. This exclusion is important because firms' decisions about resource allocation toward CSR activities are likely to be influenced by the government. We winsorize the variables within a two-percentile range at both the tails (including ROA, liquidity, leverage, advertising intensity, R&D intensity, and the ratio of independent directors on the board).

To ensure that the findings reflect firms' systematic CSR behavior, it is important to include only those firms whose information exists throughout the period of analysis, from the years 2014-15 to 2018-19. Creating a balanced sample is especially important because positive (or lack of) CSR spending by firms whose information is available only once or a few times during the analysis window could distort the results.

The mandatory CSR requirement was implemented from financial year 2014-15 (from April 01, 2014), and the prior year's data (2013-14) are required to infer firms' perception of own's performance relative to historical and social aspiration levels.

The refined balanced dataset is comprised of 11,690 observations with 2,338 unique firms, including 1,544 affected firms [obligated to spend on CSR] and 794 unaffected firms [not obligated to spend on CSR]. As only the affected firms are required to spend on CSR activities, we further reduce the sample to firms that were affected by the mandate at any point during the analysis period, thereby reducing the total sample to 7,720 observations.

We use a two-step dynamic panel data (DPD) modeling approach (Arellano and Bond, 1991) to conduct analyses with the *xtdpdgmm* command in Stata 16. The method specifically controls for systematic firm-level differences, heterogeneity, and industry effects and mitigates the autocorrelation problem (Blundell & Bond, 2023). DPD modeling using GMM enables controlling for the influence of firms' prior CSR commitments on the future ones, and accounts for the effect of lagged values of variables on the dependent variable (CSR).

The Arellano and Bond autocorrelation test of first-differenced residuals displays a p < 0.01 statistic for first-order correlation for all models, confirming autocorrelation concerns. The second- and third-order autocorrelation tests show non-significant p values, indicating that the method mitigates autocorrelation concerns. In addition, the Sargan-Hansen tests carried out do not support overidentification restrictions (p > 0.1), indicating that the model specifications are valid. The DPD models further dropped 113 observations, leaving 7,607 firm-year observations with 1,544 unique firms in the final sample.

#### Measures

**CSR Expenditures.** The Prowess database records expenses incurred toward [a] donations, [b] social and community expenses, and [c] environmental protection. Per the dictionary provided by CMIE, donations are expenses incurred for social causes, including

religious purposes, relief works, or local authorities for setting up social institutions. Social and community expenses benefit society in general, such as maintaining public parks, constructing roads, toward social occasions etc. The third category is that of environment and pollution control related expenses and includes expenses toward effluent disposal, implementing emission control technologies, and environment development.

These three categories are exhaustive with no overlap in the reporting of the expenses, and reflect expenses incurred toward external stakeholders (and not internal stakeholders such as employees). Following prior studies, we sum these three variables to compute the total CSR spending by firms (Manchiraju & Rajgopal, 2017). We then scale this spending by profits after tax. Some firms in the sample suffered loss, and therefore reported negative profits, leading to negative values of CSR that hold no meaning (as CSR spending is positive). To address this concern, we have transformed such negative CSR values to their absolute positive values. The mean and median values of CSR for the affected firms are 2.228 and 1.391 percent respectively.

**Consistent and Inconsistent Performance Feedback:** We use return on assets (profits after tax over total assets) (ROA) as the focal performance measure. We use prior year performance as the historical aspiration level (Bromiley & Harris, 2014) and the mean performance of firms in the same industry (aggregated by two-digit industry code and excluding the focal firm) as the social aspiration level (Greve, 2003; Mishina et al., 2010). We then compute how far above or below a firm's performance is from its historical and social aspiration levels (the difference between the current performance and historical and social aspiration levels). Subsequently, we use the spline function to construct historical and social attainment discrepancies (Harris & Bromiley, 2007).

For the observations with positive attainment discrepancies, the values are kept *as is* and all negative values are set to zero (Greve, 2003, 2008; Harris & Bromiley, 2007; Mishina et al., 2010). Similarly, for observations with negative attainment discrepancies, all positive values are set to zero and the remaining values are transformed to the respective absolute values. Creating a spline function helps in the analysis because both the positive and the negative attainment discrepancies reflect a higher distance from respective aspiration levels. The attainment discrepancies are then centered around their respective mean values.

We use the centered attainment discrepancies to create constructs for the consistent feedback and the two inconsistent feedback types. The *consistent* dissatisfactory performance feedback measure is computed by taking a product of the attainment discrepancies where firms failed to meet both the historical and social aspiration levels.

The two *inconsistent* feedback measures are computed using products of the attainment discrepancies: (1) performance above historical aspiration level and below social aspiration level, and (2) performance below historical aspiration level and above social aspiration level. The performance feedback is lagged to predict CSR spending in the current year.

**Control Variables**. We control for firm size (logged net worth), liquidity (current assets over current liabilities), leverage (debts over equity), firm age, advertising intensity (advertising expenses over sales ratio), R&D intensity (R&D expenses over sales ratio), and a board independence ratio (Bear et al., 2010). Because firms with more liquidity in prior years may have more potential to spend on CSR, we lag the liquidity variable by one year. The DPD modelling also controls for industry effects, which otherwise may lead to systematic variation between firms depending upon industry affiliation.

#### RESULTS

Table 1 summarizes the hypotheses. The negative coefficient estimate of H1 will be larger than that for H2, which will be larger than that for H3. A larger negative coefficient estimate means lower resource allocation toward CSR.

#### [Insert Table 1 about here]

Table 2 gives the descriptive statistics and pairwise correlations for the sample. The mean and median values of ROA for the affected firms are 5.05 percent 6.32 percent respectively. The correlation between performance below social aspiration level and below historical aspiration level is positive and significant (p < 0.01). The correlations between performance above and below aspiration levels (social and historical) are negative and significant (p < 0.01).

#### [Insert Table 2 about here]

Table 3 shows the results for the analysis using two-step dynamic panel data (DPD) modelling. As seen in Model 1 in Table 3, the firms that perform below both the historical and social aspirations increase resource commitment toward CSR. This result is *opposite* to what we predicted in H1. A reduction in financial performance by one standard deviation, with respect to both historical and social aspirations, increases CSR spending by 0.419 percent of profits (p = 0.040). This finding warrants further elucidation that we undertake in the discussion section.

Model 2 in Table 3 shows that the firms that meet or exceed historical aspiration levels but fail to outperform their peers perceive CSR as a loss, thereby not fulfilling CSR mandate and spending less on CSR activities. An increase in financial performance by one standard deviation with respect to historical aspiration and a reduction in financial performance by one standard deviation with respect to social aspiration reduces CSR by 1.078 percent (p = 0.034). H2 is supported. Firms spend less on CSR to compensate for potential revenues lost to competition.

We find support for H3. The sign of the coefficient is negative and significant for p = 0.01. It may be inferred that firms consider failing in either of the aspiration levels as unsatisfactory. This finding is in line with theory that failing to meet LOA triggers problemistic search aimed at improving performance (Jordan & Audia, 2012). The coefficient size in Model 2 ( $\beta = -1.078$ ) is smaller than that in Model 3 ( $\beta = -0.998$ ), providing evidence that firms are more dissatisfied, and spend less on CSR, when they fail to meet social aspiration level vis-à-vis historical aspirations. In sum, firms exhibit reluctance toward CSR spending when failing to meet either historical or social aspiration levels.

#### [Insert Table 3 about here]

# **Supplementary Analyses**

Alternate CSR Measure: We conduct two supplementary analyses. First, we use an alternate measure of CSR by scaling total CSR spending over a firm's net worth. This measure is robust because unlike profits that often may be either negative or positive, a firm's net worth is mostly positive, which leads to positive values of CSR when total CSR spending is scaled by net worth. The ratio of total CSR spending to net worth, therefore, gives one a fair idea of firm's CSR behavior. We winsorize the variable by 2 percentiles at both the tails; the mean and median values of this alternate CSR variable are 0.22 percent and 0.14 percent respectively.

# [Insert Table 4 about here]

As in the previous analysis, Model 1 in Table 4 does not provide support for H1. The results show that firms that perform below historical and social performance aspiration levels spend

around 0.024 percent more on CSR (scaled over net worth). Findings in Models 2 and 3 (Table 4) support the predictions in H2 and H3, suggesting that firms reduce CSR spending when they fail to meet either of the two aspiration levels. Noticeably, the coefficient size of failing to meet social aspiration level while meeting historical aspiration level ( $\beta = -0.076$ ; see column 2) is 58 percent smaller than when firms meet social aspiration level but fail to meet historical aspiration level ( $\beta = -0.044$ ; see column 3). Since the coefficient is negative, a smaller negative coefficient implies lesser expenditures. An H3 postulate is that firms failing to meet historical performance aspiration levels but surpassing social performance aspiration levels will make larger CSR resource commitments than firms failing to meet social performance aspiration levels but meeting historical performance aspiration levels. This hypothesis is validated.

*Alternate Performance Measure:* For the second analysis, we construct models with another firm performance measure. We form binary variables to indicate whether firms meet or fail to meet their performance LOAs. We use a combination of one binary variable and one continuous variable to derive interaction effects. For instance, Model 2 in Table 5 examines the effect of interaction between performance above historical aspiration level and below social aspiration level. We use a binary variable "Above Historical (Binary)" that equals 1 if a firm meets or exceeds historical aspiration level, and 0 otherwise, to interact with a continuous measure of attainment discrepancy along the social dimension. The findings support previous results.

#### [Insert Table 5 about here]

Analyzing Causal Impact of Mandate on CSR Spending Using Difference-in-Differences (D-i-D) We analyze the effects of the mandatory CSR policy on affected firms relative to control firms using the D-i-D method (Table 6). We treat mandatory CSR spending as a key institutional transition (Peng, 2003), and we causally establish how firms' CSR behavior changed in the affected firms relative to the unaffected (control) firms after implementation of the CSR policy. To do so, we create a strongly balanced sample with affected and unaffected firms that appear in the dataset for eight years, from 2011-12 to 2018-19, with no missing observations.

We keep the observations for the same firms three years before (from 2011-12 to 2013-14) and five years after the implementation of the mandate (from 2014-15 to 2018-19) in the sample. Thus, the sample consists of 1,570 unique firms, resulting in 12,560 observations over eight years. We compare the influence of performance feedback on firms' resource allocation to CSR, which is the CSR spending over profits after tax, as used in earlier models.

Maintaining a strongly balanced sample reduces noise due to missing data for firms that otherwise leave or enter the sample during the analysis window. Therefore, this setting could be used to examine how the CSR behavior of the same firms changed with the implementation of the Indian Companies Act of 2013 legislation making CSR mandatory.

The D-i-D method improves the reliability of the findings as it replicates a natural experiment. An explicit institutional transition effect can be measured from the data. The variable "affected" equals "1" if a firm is affected by the mandate at any point in time during these eight years and "0" otherwise. We create a binary variable "T" that equals "1" for the time-period after the CSR policy implementation, and "0" in the preceding years (until 2013-14).

Model 1 in Table 6 shows that compared to the period in which CSR was voluntary (until 2013-14), the affected firms fulfill CSR goals more when they fail to meet both aspiration levels.

Failure to meet historical and social performance aspiration levels has led affected firms to increase CSR spending ( $\beta = 0.117$ , p = 0.038), supporting H1. Model 2 reveals that firms that meet historical aspiration level and are affected by the CSR policy but fail to meet social aspiration level might reduce their total CSR spending in the mandatory CSR period, compared to the voluntary CSR period ( $\beta = -0.093$ ). The results, however, are not significant (p = 0.384). It is likely that firms remain dissatisfied to a similar degree in this scenario, irrespective of the mandate's implementation. In line with H3, we also find that mandatory CSR may lead the affected firms to spend less on CSR if they meet social aspiration level but fail to meet historical aspiration level (Model 3,  $\beta = -0.265$ , p = 0.100).

[Insert Table 6 about here]

#### DISCUSSION

# **Theoretical Implications and Explanations**

**Depiction of Key Findings.** CSR is a core element of the ESG triad that influences sustainability practices.<sup>8</sup> The implementation of mandatory CSR is an institutional transition. Entrenched organizational norms and cognitive schemes play a substantial role in shaping firms' CSR-appropriate strategic behavior. As an institutional transition, mandatory CSR is compliance driven and expenditure oriented; it can generate cost-cutting motives in firms. Equally, financial performance pressures influence cost-cutting and CSR-spending patterns.

We do not establish an explicit linear homogeneous relationship between financial aspiration levels and CSR spending. Rather, we observe a heterogenous and quadratic

<sup>&</sup>lt;sup>8</sup> This study belongs in a domain of work [Baumann-Pauly et al., (2013), Li and Wu (2020), Surroca et al., (2010), and Udayasankar (2008)] that evaluates organizational level CSR activity determinants.

relationship. There are four circumstances: (i) the case when firms pass both historical and social performance levels ( $\beta = 0.406$ ) (results available with the authors); then the cases of (ii) failing to meet social but passing historical performance levels ( $\beta = -1.078$ ), and (iii) passing social but failing to meet historical performance levels ( $\beta = -0.998$ ); and finally, case (iv) failing to meet both performance levels ( $\beta = 0.419$ ). We use these coefficient estimates to plot the pattern.

Figure 1 shows that the relationship between consistent and inconsistent performance feedback and CSR spending is U-shaped. This is a unique finding for the CSR field. It, however, is consistent with other findings in BTOF research (Antonelli & Scellato, 2011) and with the idea that risk preferences vary across situations for the same agent (March & Shapira, 1992).

## [Insert Figure 1 about here]

Failing to meet either or both of historical and social aspiration levels have heterogeneous effects on firms' commitments toward government-imposed CSR goals. Meeting both performance aspiration levels may also lead to greater CSR spending [case (i)]. Failing to meet either of the performance aspiration levels, the inconsistent failure cases, may lead to dissatisfaction and, subsequently, to lesser spending toward mandated CSR goals [cases (ii) and (iii)]. The latter results are in line with the failure inducement idea (Antonelli, 1989; Bolton, 1993; Kiesler & Sproull, 1982). Finally, results do not support the prediction that when there is consistent failure to meet both aspiration levels [case (iv)] firms would be least willing to fulfill CSR mandates. Instead, we find such firms spend a higher proportion of profits on CSR.

# Theoretical Explanations for Consistent Failure Feedback (Case 1/H1)

We theoretically assess the unique results. In the problemistic search research domain, studies establish that performance too far below an aspiration level may not actually lead to

problemistic search by firms. In situations of consistent failure, feelings of dissatisfaction can be overwhelmed by feelings of fear and desperation (Sarkar & Osiyevskyy, 2018). Such fears may make firms risk averse and lead them to continue CSR spending. This outcome is consistent with a threat-rigidity effect (Cameron et al., 1987; March & Shapira, 1987; Shimizu, 2007; Sutton & D'Aunno, 1989), and the threat-rigidity concept explains the quadratic performance aspirations and CSR spending relationship observation. Thus, actual spending may display a U-shaped pattern (Antonelli & Scellato, 2011).

As per the threat-rigidity hypothesis, firms facing major performance issues try to restrict cognition by limiting information and restricting attention to solutions in inertia-augmenting ways. Such failure perceptions can enhance the tendency for behavior to continue with dominant responses (Ocasio, 1995), to reduce risks once-acceptable risks (Sirmon et al., 2008). This behavior continuance will be based on extent of perceived negative outcomes.

A slighter reduction in performance will be considered less daunting than a materially critical threat which evokes a rigid response (Dutton, 1986; Osiyevskyy & Dewald, 2015). Thus, firms not meeting one of the aspiration levels may engage in failure-induced risk-seeking behavior, in a belief that they may get away with non-fulfillment. Thereby, they may not fulfil mandatory CSR spending requirements and cut costs.

Owing to triggering of the threat rigidity effect, firms consistently failing to meet both aspiration levels may be unable to change routines or take risky decisions (Griffin et al., 1995; Ocasio, 1995; Staw et al., 1981). Thus, they would prefer to earn legitimacy by spending on CSR activities. Hence, firms performing far below both the aspiration levels may perceive severe adversity, may stay in their comfort zones, and rigidly keep spending to survive and avert longterm existential risks (Chen & Miller, 2007; Sarkar & Osiyevskyy, 2018). Following the mandatory CSR policy may mean avoiding government scrutiny and lower institutional attention risks. This may partially explain firms' increased CSR activities despite dismal performance.

But, where just one or the other performance aspirations have been met, we find firms prefer higher risk-taking, and engage in rule-breaking, compared to the voluntary CSR era. In reduced demand periods, firms outshining peers will try to maintain dominance when industry conditions normalize by cutting CSR costs. Such CSR spending reductions may be hazardous, as firms may lose business to socially responsible firms that follow CSR mandates (Cao et al., 2019). Hence, how a mandated CSR approach can be made more effective is a concern that needs further research, as does the issue of the point at which non-fulfillment turns to fulfillment.

# Institutional Transition Theory Elucidation of the Causality Assessment Result

Depicting institutional transition effects (mandatory versus voluntary CSR spending, the causality analysis shows that firms performing below both aspiration levels change risk attitudes after mandatory CSR spending implementation. Performance failures along two dimensions (historical and social), coupled with the imposed mandate, can instigate cognitive barriers that halt information seeking for cost-cutting purposes; however, such information reductions may reduce potential asymmetries between regulators and firms (Baron & Myerson, 1982). Hence, incentive incompatibility issues can decrease (Laffont & Tirole, 1993), reducing regulators' moral hazard problems of firms' CSR mandates non-fulfillment.

It is likely that 'soft' implementation of mandatory CSR spending rules could trigger incentives for firms performing below both aspiration levels to 'obey' CSR spending rules. Formal 'soft' mandatory policy enforcement can impact firms' informal cognitive lenses, to influence confirmatory behaviors (Hodgson, 2004; Crawford & Ostrom, 1995). Since regulators would be 'soft' on enforcement, firms would reciprocate and behave appropriately (Bolton & Ockenfels, 2000) by meeting spending targets to be noted by agencies and stakeholders as being socially responsible. Hence, future performance perceptions would improve and yield market and fiscal benefits. Thus, 'soft' enforcement-of mandatory CSR rules has led to the fulfillment of obligations under most dissatisfactory financial performance.

Several further fundamental conceptual issues, grounded in BTOF, arise. If there were to be no incentives for firms in the form of 'soft' enforcements, the observed outcome could be construed as behavior rigidity, driven by fearfulness, in the face of perceived threats. Conversely, the observed outcome could be interpreted as reciprocity (eliciting firms' cooperation) in behavior due to the incentive benefits embedded in a 'soft' enforcement regime. If incentives were to be embedded in a 'soft' enforcement regime, the first theoretical question is what is the 'trigger point' in such a regime when non-reciprocity in behavior and non-fulfillment changes to reciprocity and fulfillment? Second, what are features of a 'soft' enforcement regime that motivate reciprocity in behavior versus rigidity in behavior (or motivations driven by fear and threats). These issues are vitally important for future theory building. Thereafter, the theoretical results can be utilized, in an augmented BTOF framework, for crafting institutional frameworks that lead to sustainability-supporting firm behavior and desired ESG outcomes.

# Contributions

Using a novel theoretical framework, our study contributes by being one of the first to theoretically evaluate how firms behave if the voluntary CSR assumption no longer holds following an institutional transition. We make the role of a CSR institutional mandate theoretically central. This concern is vital, with increasing applications of mandatory CSR policies. As a research construct, such mandates have theoretical inferences as they are institutional factors that greatly influence firm behavior. Their impacts need to be evaluated.

While total CSR spending by firms in India has increased compared to when CSR was voluntary, mandatory CSR appears as tax that, if not applied carefully, may motivate firms to reduce CSR spending. Firms reducing CSR spending under mandatory conditions risk being perceived as deviating from normative behavior. Conversely, CSR offers insurance-like benefits through moral reputation capital (Godfrey et al., 2009), thus motivating spending. We find that when institutional enforcement is "soft," non-performing firms may perceive incentives to alter behavior and maintain CSR spending levels.

The BTOF has been under-utilized in understanding the behavioral drivers of CSR activities. Assessing firms' reaction to external imposition of institutional goals extends BTOF and CSR literatures (Greve & The, 2018). We contribute to the literature by using a BTOF lens in exploring the unexplored topic of mandatory CSR. We address a need to understand how multiple aspiration levels, historical and social, influence decision-making in firms (Joseph & Gaba, 2015; Lucas et al., 2018; Sarikadis et al., 2023). Mandatory CSR leads to governance situations where firms and governments collectively share responsibilities. Yet, institutional CSR imposition requires intra-organizational analyses, as social performance outcomes are driven by firms' compliance behaviors (Nason et al., 2018). Intra-organizational factors can hinder CSR implementation, and policies must include methods for achieving outcomes.

#### **Limitations and Future Research**

The findings must be interpreted with the caveat that the sample relates to firms doing

business in India. The context, however, allows us to leverage an institutional transition setting of mandatory CSR implementation. This study assumes that legitimacy from government, regulators and other stakeholders is critical for firms' survival (Marquis & Qian, 2014; Wang & Qian, 2011). We view not doing any CSR activities or reducing CSR spending as risky.

The dissatisfaction mechanism invoked to explain the relationship between performance feedback and CSR has underscored findings generalizable to other contexts. Future studies may test and extend this study by examining how dissatisfactory performance feedback influences disclosure of CSR activities. As more research emerges, results on the intended and unforeseen behavioral consequences of CSR mandates on firms will appear to provide core insights into how public good is affected, as will solutions to tackle societal problems.

# CONCLUSION

This study evaluates how social and historical financial aspiration levels influence the fulfillment of external mandates imposed by a pro-CSR institutional transition—namely mandatory CSR—and what contributes toward fulfillment and non-fulfillment of such CSR policies. Our analysis reveals substantial heterogeneity. We find that meeting both aspiration levels positively influences CSR spending. Thereafter, the relationship follows a U-shaped quadratic form. Not meeting one or the other of social and historical financial aspiration levels negatively influences CSR spending. Conversely, not meeting both aspiration levels positively influences conversely. Implementing mandates makes CSR spending appear as a loss which firms experiencing dissatisfactory financial performance may attempt to recover. Our study lights the way forward toward a deeper understanding of institutional and intra-

organizational forces' impact on CSR activities, and the consequences of forcing firms to be

socially responsible to contribute to the public purpose.

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Hypothesis	Description	Coefficient Sign Expected	Likely Coefficient Magnitudes	CSR Spending Implications
H1	Firms that fail to meet both historical and social performance aspiration levels will commit the least resources toward mandatory CSR activities.	Negative	Coefficient for H1 < Coefficient for H2 < Coefficient for H3	Least spending among the three scenarios described
H2	Firms that fail to meet social performance aspiration level while meeting historical performance aspiration level will commit lesser resources toward mandatory CSR activities. The resource commitment levels of such firms will be greater than resources committed when there has been failure to meet both social and historical performance aspiration levels.	Negative	Coefficient for H2 < Coefficient for H3	Lower level of spending but more than that of firms categorized in H1 and lower spending than that by firms categorized in H3
Н3	Firms that fail to meet historical performance aspiration level while meeting social performance aspiration level will commit less resources toward mandatory CSR activities. The resource commitment levels of such firms will be greater than resources committed when there has been failure to meet social performance aspiration levels while meeting historical performance aspiration levels.	Negative	Coefficient for H3 > Coefficient for H2 > Coefficient for H1	Low level of spending but more than that of firms categorized in H1 and by that of firms categorized in H2

Table 1Hypotheses Summary

Variables	Mean	SD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) CSR (percent of profits)	2.228	2.965	1.000										
(2) Above historical	1.432	2.861	-0.099*	1.000									
(3) Below historical	1.377	2.787	0.038*	-0.251*	1.000								
(4) Above social	3.138	4.417	0.006	0.329*	-0.148*	1.000							
(5) Below social	1.428	2.953	-0.146*	-0.103*	0.391*	-0.346*	1.000						
(6) Firm size (billions INR)	15.162	95.269	0.085*	-0.072*	-0.062*	0.129*	-0.115*	1.000					
(7) Liquidity (ratio)	3.301	8.557	-0.041*	0.040*	0.056*	0.101*	-0.047*	-0.036*	1.000				
(8) Leverage (ratio)	1.052	7.024	-0.031*	-0.004	0.011	-0.071*	0.141*	-0.120*	-0.036*	1.000			
(9) Firm age (years)	35.765	21.020	0.088*	-0.004	0.022	-0.027	-0.014	0.150*	0.019	-0.015	1.000		
(10) Advertising intensity (percent)	0.793	2.359	-0.018	-0.018	0.003	0.107*	0.014	0.137*	0.096*	-0.015	-0.029	1.000	
(11) R&D intensity (percent)	0.317	0.946	0.064*	-0.001	0.021	0.071*	-0.007	0.189*	-0.040*	-0.024	0.042*	-0.022	1.000
(12) Board independence (percent)	39.162	12.921	0.066*	-0.042*	0.006	-0.025	-0.008	0.187*	0.008	-0.006	0.212*	0.001	0.082*

 Table 2

 Descriptive Statistics and Pairwise Correlation Matrix

\* Shows significance at the 0.01 level

Notes:

(1) N=7,607 observations. Correlations are at the *p*-value < 0.01 if |correlation| > 0.03.

(2) The variables above/below historical aspiration level and social aspiration level signify the difference between the actual performance and the respective aspiration level.

(3) The median value of CSR (percent of profits) is 1.391, which is below the threshold of 2 percent.

VARIABLES	(1) CSR	(2) CSR	(3) CSR
Below Historical × Below Social (H1)	0.419**		
Above Historical × Below Social (H2)	(0.204)	-1.078**	
Below Historical × Above Social (H3)		(0.510)	-0.998***
CSR Lagged by One Year	0.272***	0.269***	(0.387) 0.204***
Above Historical	(0.047)	(0.043) -0.400**	(0.039)
Above Social		(0.156)	-0.608**
Below Historical	0.023		(0.240) 0.022 (0.092)
Below Social	-0.352	0.172	(0.092)
Firm size	-0.199	-0.044	-0.161
Liquidity	-0.059	(0.007) (0.260)	0.259 (0.298)
Leverage	(0.25) 0.017 (0.251)	0.130	(0.250) 0.004 (0.257)
Firm Age	2.959	1.044	1.429
Advertising Intensity	0.145	0.114 (0.185)	0.166
R&D Intensity	-0.935** (0.465)	-0.818* (0.469)	-0.928** (0.434)
Board independence ratio	0.456 (0.776)	0.542 (0.866)	-0.284 (0.521)
Constant	-7.036 (8.682)	-1.459 (8.132)	-1.641 (6.056)
Observations Number of firms	7,607 1,544	7,607 1,544	7,607 1,544

 Table 3

 Main Analysis using Dynamic Panel Data Modelling

Standard errors in parentheses, \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

Note: CSR in these models is calculated as total CSR spending scaled over profits of the firm.

VARIABLES	(1)	(2)	(3)
	CSR	CSR	CSR
Below Historical × Below Social (H1)	0.024*		
Above Historical $\times$ Below Social (H2)	(0.012)	-0.076** (0.031)	
Below Historical × Above Social (H3)		(0.001)	-0.044* (0.023)
CSR Lagged by One Year	0.157* (0.082)	0.204** (0.086)	0.166** (0.081)
CSR Lagged by Two Years	0.128*** (0.047)	0.100** (0.048)	0.111** (0.046)
Above Historical		-0.028*** (0.009)	
Above Social			0.001 (0.019)
Below Historical	0.002 (0.006)		0.008 (0.005)
Below Social	-0.045 (0.036)	-0.018 (0.029)	
Firm size	-0.083	-0.101*	-0.079
	(0.059)	(0.057)	(0.067)
Liquidity	0.022	0.030**	0.024
	(0.017)	(0.015)	(0.018)
Leverage	-0.015	-0.012	-0.013
	(0.019)	(0.021)	(0.023)
Firm Age	0.077	0.055	0.055
	(0.183)	(0.192)	(0.195)
Advertising Intensity	0.024*	0.022*	0.024**
	(0.014)	(0.012)	(0.012)
R&D Intensity	-0.029	-0.031	-0.039
	(0.025)	(0.023)	(0.024)
Board independence ratio	0.053	0.075	0.056
	(0.060)	(0.061)	(0.059)
Constant	0.516	0.732	0.571
	(0.542)	(0.513)	(0.564)
Observations	7,574	7,574	7,574
Number of firms	1,544	1,544	1,544

# Table 4Analysis Using an Alternate CSR Measure

Standard errors in parentheses, \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

Note: The alternate measure for CSR used in these models is total CSR spending scaled over net worth of the firm. The results remain consistent with the previous analysis in Table 3.

$\begin{array}{ c c c c c c c } (1) & (2) & (3) \\ CSR & CSR & CSR & CSR \\ Below Historical (Binary) \times Below Social (Binary) (H1) & 3.897*** & (1.441) \\ Above Historical (Binary) \times Below Social (Continuous) (H2) & -1.189** & (0.560) \\ Below Historical (Continuous) \times Above Social (Binary) (H3) & -1.127* & (0.610) \\ CSR Lagged by One Year & 0.145*** & 0.237*** & 0.199*** & (0.044) & (0.038) & (0.049) \\ Above Historical (Continuous) & & & & & & & & & & & & & & & & & & &$				
Initial Below Historical (Binary) × Below Social (Binary) (H1) $3.897^{***}$ $(1.441)$ Above Historical (Continuous) × Below Social (Continuous) (H2) $-1.189^{**}$ $(0.560)$ Below Historical (Continuous) × Above Social (Binary) (H3) $-1.127^{**}$ $(0.561)$ CSR Lagged by One Year $0.145^{***}$ $0.237^{***}$ $0.199^{***}$ Above Historical (Continuous) $0.614^{***}$ $0.237^{***}$ $0.199^{***}$ Below Historical (Continuous) $0.614^{***}$ $0.237^{***}$ $0.199^{***}$ Below Historical (Continuous) $0.614^{***}$ $0.237^{***}$ $0.199^{***}$ Below Historical (Continuous) $0.784^{***}$ $0.237^{***}$ $0.199^{***}$ Above Historical (Binary) $0.784^{***}$ $0.237^{***}$ $0.199^{***}$ Above Social (Continuous) $0.784^{***}$ $0.237^{***}$ $0.199^{***}$ Below Historical (Binary) $-1.010$ $(0.818)$ $0.194^{***}$ $0.401^{***}$ Below Social (Binary) $-1.357^{**}$ $(0.651)$ $0.404^{***}$ $0.235^{**}$ Below Social (Binary) $-1.357^{**}$ $(0.651)$ $0.805$ $0.257$ $0.9577$ $0.805$ $0.25$	VARIABLES	(1) CSR	(2) CSR	(3) CSR
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	Below Historical (Binary) × Below Social (Binary) (H1)	3 807***	Con	CDIC
Above Historical (Binary) × Below Social (Continuous) (H2) $-1.189^{**}$ (0.560)Below Historical (Continuous) × Above Social (Binary) (H3) $-1.127^{*}$ (0.610)CSR Lagged by One Year $0.145^{***}$ (0.044) $0.237^{***}$ (0.038) $0.199^{***}$ (0.049)Above Historical (Continuous) $0.145^{***}$ (0.044) $0.237^{***}$ (0.038) $0.614^{**}$ (0.285)Below Historical (Continuous) $0.614^{***}$ (0.365) $0.237^{***}$ (0.365) $0.614^{***}$ (0.285)Below Social (Continuous) $0.784^{***}$ (0.365) $0.784^{***}$ 	below Historical (Billary) × below Social (Billary) (111)	$(1 \ 4 \ 4 \ 1)$		
Above Historical (Binary) × Below Social (Continuous) (H2) $-1.18^{9-w}$ (0.56)       (0.56)         Below Historical (Continuous) × Above Social (Binary) (H3) $-1.127^*$ CSR Lagged by One Year $0.145^{***}$ $0.237^{***}$ (0.044)       (0.038)       (0.049)         Above Historical (Continuous) $0.614^{***}$ (0.285)         Below Social (Continuous) $0.614^{***}$ (0.285)         Below Social (Continuous) $-0.401^{***}$ (0.285)         Below Social (Binary) $-0.401^{***}$ (0.818)         Below Historical (Binary) $-1.010$ (0.818)         Below Social (Binary) $-1.357^{***}$ (0.651)         Below Social (Binary) $-0.404$ (0.906)         Firm size $0.494$ 0.283       0.049         (0.259)       (0.252)       (0.274)       (0.265)         Liquidity $0.263$ 0.170       0.068         (0.341)       (0.371)       (0.265)       (0.257)       (0.257)         Firm Age $-1.830$ $-0.702$ 0.567         (3.985)       (3.919)       (3.395)       (0.411)       (0.371)       (0.265)         Firm A	About Historical (Dinam) & Delaw Social (Continuous) (112)	(1.441)	1 100**	
Below Historical (Continuous) × Above Social (Binary) (H3)         -1.127*           (0.610)         CSR Lagged by One Year         0.145***         0.237***         0.199***           Above Historical (Continuous)         0.614**         0.043         0.049           Below Historical (Continuous)         0.614**         0.0237***         0.614**           Below Social (Continuous)         0.784**         0.614**         0.285           Below Social (Continuous)         0.784**         0.614**         0.285           Above Historical (Binary)         -0.401**         (0.285)         -0.401**           Above Social (Binary)         -1.357**         (0.551)         -1.010           Below Social (Binary)         -1.357**         (0.551)         -1.010           Below Social (Binary)         -0.404         0.283         0.049           (D.957)         (0.957)         (0.957)         (0.855)           Leverage         0.364         0.283         0.079           (D.341)         (0.371)         (0.265)         -1.830           Leverage         0.364         (0.361)         (0.371)         (0.265)           Firm Age         -1.830         -0.702         0.567         (3.985)         (3.919)         (3.395)	Above Historical (Binary) $\times$ below Social (Continuous) (H2)		-1.189***	
Below Historical (Continuous) × Above Social (Binary) (H3) $-1.12/* (0.610)$ CSR Lagged by One Year $0.145^{***}$ $0.237^{***}$ $0.199^{***}$ Above Historical (Continuous) $0.614^{**}$ $(0.044)$ $(0.038)$ $(0.049)$ Below Historical (Continuous) $0.784^{***}$ $(0.255)$ Below Social (Continuous) $0.784^{***}$ $(0.365)$ Above Historical (Binary) $-0.401^{***}$ $(0.194)$ Above Social (Binary) $-1.357^{***}$ $(0.651)$ Below Nistorical (Binary) $-1.357^{***}$ $(0.651)$ Below Social (Binary) $-1.357^{***}$ $(0.651)$ Below Social (Binary) $-0.404$ $(0.906)$ Firm size $0.494$ $0.283$ $0.049$ $(0.957)$ $(0.957)$ $(0.805)$ Liquidity $0.64$ $(0.252)$ $(0.252)$ Liquidity $0.364$ $0.353$ $0.079$ $(0.341)$ $(0.371)$ $(0.265)$ Firm Age $-1.830$ $-0.702$ $0.567$ $(3.985)$ $(3.919)$ $(3.395)$ Advertising Intensity $0.161$ $0.077$ $0.186$ $(0.167)$ $(0.166)$ $(0.144)$ Board independence ratio $-0.668$ $-0.822$ $-0.359$ $(0.561)$ $0.630$ $(0.565)$ $(0.561)$ $(0.453)$ $(0.561)$ $(0.630)$ $(0.565)$ $(0.561)$ $(0.453)$ $(0.561)$ $(0.630)$ $(0.565)$ $(0.561)$ $(0.630)$ $(0.561)$ $(0.630)$ $(0.565)$ $(0.561)$ $(0.453)$ $(0.44$			(0.560)	1 107*
CSR Lagged by One Year         (0.145****         (0.237***)         (0.199***)           Above Historical (Continuous)         (0.044)         (0.365)         (0.614)           Below Historical (Continuous)         0.514***         (0.237***)         (0.614)           Below Social (Continuous)         0.784***         (0.265)           Above Historical (Binary)         0.784**         (0.365)           Above Social (Binary)         -0.401**         (0.818)           Below Historical (Binary)         -1.357**         (0.651)           Below Social (Binary)         -1.357**         (0.818)           Below Social (Binary)         -0.404         (0.818)           Below Social (Binary)         -0.404         (0.818)           Firm size         0.494         0.283         0.049           (0.957)         (0.957)         (0.805)         (0.252)           Liquidity         0.263         0.170         0.068           Leverage         0.364         0.353         0.079           (0.341)         (0.371)         (0.255)         (0.255)           Firm Age         -1.830         -0.702         0.567           Gonda Intensity         0.161         0.077         0.186           (0.16	Below Historical (Continuous) $\times$ Above Social (Binary) (H3)			-1.12/*
$\begin{array}{cccccccccccccccccccccccccccccccccccc$				(0.610)
Above Historical (Continuous) $(0.044)$ $(0.038)$ $(0.049)$ Below Historical (Continuous) $0.614**$ (0.285) $0.614**$ (0.285)Below Social (Continuous) $0.784**$ (0.365) $0.365$ $-0.401**$ (0.194)Above Historical (Binary) $-0.401**$ (0.194) $-1.010$ (0.818)Below Historical (Binary) $-1.357**$ (0.651) $-1.010$ (0.818)Below Social (Binary) $-1.357**$ (0.651) $-1.010$ (0.818)Below Social (Binary) $-0.404$ (0.906) $-1.010$ (0.818)Iquidity $0.631$ (0.957) $0.0494$ (0.957)Liquidity $0.634$ (0.353) $0.079$ (0.355)Liquidity $0.263$ (0.341) $0.170$ (0.353)Leverage $0.364$ (0.353) $0.079$ (0.341)Advertising Intensity $0.161$ (0.167) $0.1661$ (0.166)R&D Intensity $0.161$ (0.453) $0.449$ (0.441)Board independence ratio $-0.068$ (0.551) $-0.802$ (0.551)Constant $-0.068$ (0.561) $-0.2316$ (0.565)Constant $7.607$ (0.567) $7.607$ Observations $7.607$ (0.567) $7.607$	CSR Lagged by One Year	0.145***	0.237***	0.199***
Above Historical (Continuous)       0.614**         Below Social (Continuous)       0.784**         Below Social (Continuous)       0.784**         Above Historical (Binary)       0.401**         Above Social (Binary)       -0.401**         Below Historical (Binary)       -1.010         (0.818)       0.651         Below Social (Binary)       -1.357**         (0.651)       (0.651)         Below Social (Binary)       -0.404         (0.906)       (0.957)         Firm size       0.494       0.283         (0.957)       (0.957)       (0.805)         Liquidity       0.263       0.170       0.068         (0.259)       (0.252)       (0.274)         Leverage       0.364       0.353       0.079         (0.341)       (0.371)       (0.265)         Firm Age       -1.830       -0.702       0.567         (3.985)       (3.919)       (3.395)         Advertising Intensity       0.161       0.077       0.186         (0.453)       (0.440)       (0.441)       0.364       0.335         Advertising Intensity       0.161       0.077       0.186         (0.453)       (0.449)		(0.044)	(0.038)	(0.049)
Below Historical (Continuous)       0.614** (0.285)         Below Social (Continuous)       0.784** (0.365)         Above Historical (Binary)       -0.401** (0.194)         Above Social (Binary)       -1.010 (0.818)         Below Historical (Binary)       -1.357** (0.651)         Below Social (Binary)       -1.357** (0.906)         Firm size       0.404         Leverage       0.404         (0.251)       0.0252)         Etwards       0.957)         Leverage       0.364         (0.351)       0.252)         Firm Age       -1.830         Advertising Intensity       0.161         R&D Intensity       -0.872*         Board independence ratio       -0.068         (0.561)       0.051         Storat       -0.057         Abore Social (Binary)       -1.830         (0.957)       0.957)         (0.805)       0.957)         Leverage       0.364         (0.353)       0.079         (0.611)       0.0161         (0.616)       0.1461         (0.617)       0.166         (0.616)       0.1461         (0.620)       0.0582	Above Historical (Continuous)			
Below Historical (Continuous)       0.614**         Below Social (Continuous)       0.784**         Below Social (Binary)       -0.401**         Above Social (Binary)       -0.401**         Above Social (Binary)       -1.010         Below Historical (Binary)       -1.357**         Below Social (Binary)       -0.404         Below Social (Binary)       -0.6				
$ \begin{array}{cccccccccccccccccccccccccccccccccccc$	Below Historical (Continuous)			0.614**
Below Social (Continuous)       0.784**         Above Historical (Binary)       -0.401**         Above Social (Binary)       -1.010         Above Social (Binary)       -1.357**         Below Historical (Binary)       -1.357**         (0.651)       (0.651)         Below Social (Binary)       -0.404         (0.977)       (0.957)         Below Social (Binary)       0.494       0.283       0.049         (0.906)       (0.957)       (0.805)         Liquidity       0.263       0.170       0.068         (0.259)       (0.252)       (0.274)         Leverage       0.364       0.353       0.079         (G.341)       (0.371)       (0.265)         Firm Age       -1.830       -0.702       0.571         Advertising Intensity       0.161       0.077       0.186         R&D Intensity       -0.872*       -0.808*       -0.930**         (0.453)       (0.449)       (0.441)       0.441         Board independence ratio       -0.068       -0.082       -0.351         (0.561)       (0.630)       (0.565)       (0.561)       (0.561)         Constant       4.502       2.316       0.214				(0.285)
Above Historical (Binary)         .0.401**           Above Social (Binary)         .1.010           Below Historical (Binary)         .1.357**           (0.651)	Below Social (Continuous)		0.784**	
Above Historical (Binary)       -0.401**         Above Social (Binary)       -1.010         Below Historical (Binary)       -1.357**         0.651)       -0.404         Below Social (Binary)       -0.404         0.0906)       -0.404         Firm size       0.494       0.283       0.049         1010(0.906)       0.957)       (0.957)       (0.805)         Liquidity       0.263       0.170       0.068         10259       (0.252)       (0.274)         Leverage       0.364       0.353       0.079         10341       (0.371)       (0.265)         Firm Age       -1.830       -0.702       0.567         13985       (3.919)       (3.395)         Advertising Intensity       0.161       0.077       0.186         1401       0.161       0.077       0.186         1402       0.161       0.077       0.186         1403       (0.449)       (0.441)         1404       0.561       (0.630)       (0.561)         1502       Constant       4.502       2.316       0.214         17.455       (7.457)       (7.607       7.607 <td></td> <td></td> <td>(0.365)</td> <td></td>			(0.365)	
Above Social (Binary)         -1.010 (0.818)           Below Historical (Binary)         -1.357** (0.651)           Below Social (Binary)         -0.404 (0.906)           Firm size         0.494         0.283         0.049           Liquidity         0.263         0.170         0.0681           Leverage         0.364         0.353         0.079           Firm Age         -1.830         -0.702         0.657           Kape (0.161)         0.071)         (0.265)         (0.341)         (0.371)           Advertising Intensity         0.161         0.077         0.186           Mach Intensity         0.161         0.077         0.186           R&D Intensity         0.161         0.077         0.186           Board independence ratio         -0.872*         -0.808*         -0.930**           (0.551)         (0.630)         (0.551)         0.030         (0.551)           Constant         4.502         2.316         0.214           (7.455)         (7.276)         (6.944)         0.567	Above Historical (Binary)		-0.401**	
Above Social (Binary) $-1.010$ (0.818)Below Historical (Binary) $-1.357^{**}$ (0.651)Below Social (Binary) $-0.404$ (0.906)Firm size $0.494$ (0.957)Liquidity $0.263$ (0.957)Liquidity $0.263$ (0.259)Leverage $0.364$ (0.321)Pirm Age $-1.830$ (0.341)Firm Age $-1.830$ (0.161)Advertising Intensity $0.161$ (0.167)Below Intensity $0.688$ (0.259)Advertising Intensity $0.668$ (0.167)Board independence ratio $-0.068$ 			(0.194)	
$ \begin{array}{cccccc} (0.818) \\ \mbox{Below Historical (Binary)} & -1.357^{**} \\ (0.651) \\ \mbox{Below Social (Binary)} & -0.404 \\ (0.906) \\ \mbox{Firm size} & 0.494 & 0.283 & 0.049 \\ (0.957) & (0.957) & (0.805) \\ \mbox{Liquidity} & 0.263 & 0.170 & 0.068 \\ (0.259) & (0.252) & (0.274) \\ \mbox{Leverage} & 0.364 & 0.353 & 0.079 \\ (0.341) & (0.371) & (0.265) \\ \mbox{Firm Age} & -1.830 & -0.702 & 0.567 \\ (3.985) & (3.919) & (3.395) \\ \mbox{Advertising Intensity} & 0.161 & 0.077 & 0.186 \\ (0.167) & (0.166) & (0.146) \\ \mbox{R&D Intensity} & -0.872^* & -0.808^* & -0.930^{**} \\ (0.453) & (0.449) & (0.441) \\ \mbox{Board independence ratio} & -0.068 & -0.082 & -0.359 \\ (0.561) & (0.630) & (0.565) \\ \mbox{Constant} & 4.502 & 2.316 & 0.214 \\ (7.445) & (7.276) & (6.944) \\ \mbox{Observations} & 7,607 & 7,607 & 7,607 \\ \end{array} $	Above Social (Binary)		~ /	-1.010
Below Historical (Binary) $-1.357^{**}$ (0.651)Below Social (Binary) $-0.404$ (0.906)Firm size $0.494$ $0.283$ $0.049$ (0.957)Liquidity $0.263$ $0.170$ $0.068$ (0.259)Leverage $0.364$ $0.353$ $0.079$ (0.341)Firm Age $-1.830$ $-0.702$ $0.567$ (3.985)Advertising Intensity $0.161$ $0.077$ $0.186$ (0.167)R&D Intensity $0.6812^*$ $-0.802^*$ $-0.808^*$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ (0.561)Constant $4.502$ $2.316$ $0.214$ (7.445)Observations $7,607$ $7,607$ $7,607$				(0.818)
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	Below Historical (Binary)	-1.357**		
Below Social (Binary) $-0.404$ (0.906)Firm size $0.494$ $0.283$ $0.049$ (0.957)Liquidity $0.263$ $0.170$ $0.068$ (0.259)Leverage $0.364$ $0.353$ $0.079$ (0.341)Leverage $0.364$ $0.353$ $0.079$ (0.341)Firm Age $-1.830$ $-0.702$ $0.567$ (3.985)Advertising Intensity $0.161$ $0.077$ $0.186$ (0.167)R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ (0.453)Board independence ratio $-0.068$ $-0.082$ $-0.359$ (0.561)Constant $4.502$ $2.316$ $0.214$ (7.445)Observations $7,607$ $7,607$ $7,607$	()	(0.651)		
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	Below Social (Binary)	-0 404		
Firm size $0.494$ $0.283$ $0.049$ Liquidity $(0.957)$ $(0.957)$ $(0.805)$ Liquidity $0.263$ $0.170$ $0.068$ $(0.259)$ $(0.252)$ $(0.274)$ Leverage $0.364$ $0.353$ $0.079$ $(0.341)$ $(0.371)$ $(0.265)$ Firm Age $-1.830$ $-0.702$ $0.567$ Advertising Intensity $0.161$ $0.077$ $0.186$ R&D Intensity $0.161$ $0.077$ $0.186$ R&D Intensity $-0.872*$ $-0.808*$ $-0.930**$ $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ Constant $4.502$ $2.316$ $0.214$ $(7.445)$ $(7.276)$ $(6.944)$ Observations $7,607$ $7,607$ $7,607$	below Social (Billary)	(0.906)		
$\begin{array}{cccccccccccccccccccccccccccccccccccc$	Firm size	0.700)	0.283	0.049
Liquidity $(0.357)$ $(0.357)$ $(0.303)$ Liquidity $0.263$ $0.170$ $0.068$ $(0.259)$ $(0.252)$ $(0.274)$ Leverage $0.364$ $0.353$ $0.079$ $(0.341)$ $(0.371)$ $(0.265)$ Firm Age $-1.830$ $-0.702$ $0.567$ $(3.985)$ $(3.919)$ $(3.395)$ Advertising Intensity $0.161$ $0.077$ $0.186$ $(0.167)$ $(0.166)$ $(0.146)$ R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ $(0.561)$ $(0.630)$ $(0.565)$ Constant $4.502$ $2.316$ $0.214$ $(7.445)$ $(7.276)$ $(6.944)$ Observations $7,607$ $7,607$ $7,607$		(0.957)	(0.263)	(0.805)
Liquidity $0.203$ $0.170$ $0.008$ $(0.259)$ $(0.252)$ $(0.274)$ Leverage $0.364$ $0.353$ $0.079$ $(0.341)$ $(0.371)$ $(0.265)$ Firm Age $-1.830$ $-0.702$ $0.567$ $(3.985)$ $(3.919)$ $(3.395)$ Advertising Intensity $0.161$ $0.077$ $0.186$ $(0.167)$ $(0.166)$ $(0.146)$ R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ $(0.561)$ $(0.630)$ $(0.565)$ Constant $4.502$ $2.316$ $0.214$ $(7.445)$ $(7.276)$ $(6.944)$ Observations $7,607$ $7,607$ $7,607$	Liquidity	(0.957)	(0.937)	(0.803)
Leverage $(0.239)$ $(0.232)$ $(0.274)$ Leverage $0.364$ $0.353$ $0.079$ $(0.341)$ $(0.371)$ $(0.265)$ Firm Age $-1.830$ $-0.702$ $0.567$ $(3.985)$ $(3.919)$ $(3.395)$ Advertising Intensity $0.161$ $0.077$ $0.186$ $(0.167)$ $(0.166)$ $(0.146)$ R&D Intensity $-0.872*$ $-0.808*$ $-0.930**$ $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ Constant $4.502$ $2.316$ $0.214$ $(7.445)$ $(7.276)$ $(6.944)$ Observations $7,607$ $7,607$ $7,607$	Liquidity	(0.203)	(0.170)	(0.008)
Leverage $0.364$ $0.353$ $0.079$ Firm Age $(0.341)$ $(0.371)$ $(0.265)$ Firm Age $-1.830$ $-0.702$ $0.567$ $(3.985)$ $(3.919)$ $(3.395)$ Advertising Intensity $0.161$ $0.077$ $0.186$ $(0.167)$ $(0.166)$ $(0.146)$ R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ Constant $4.502$ $2.316$ $0.214$ $(7.445)$ $(7.276)$ $(6.944)$ Observations $7,607$ $7,607$ $7,607$	T	(0.239)	(0.232)	(0.274)
Firm Age $(0.341)$ $(0.371)$ $(0.265)$ Firm Age $-1.830$ $-0.702$ $0.567$ $(3.985)$ $(3.919)$ $(3.395)$ Advertising Intensity $0.161$ $0.077$ $0.186$ $(0.167)$ $(0.166)$ $(0.146)$ R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ Constant $4.502$ $2.316$ $0.214$ Observations $7,607$ $7,607$ $7,607$	Leverage	0.364	0.353	0.079
Firm Age $-1.830$ $-0.702$ $0.567$ (3.985)(3.919)(3.395)Advertising Intensity $0.161$ $0.077$ $0.186$ (0.167)(0.166)(0.146)R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ (0.453)(0.449)(0.441)Board independence ratio $-0.068$ $-0.082$ $-0.359$ (0.561)(0.630)(0.565)Constant $4.502$ $2.316$ $0.214$ (7.445)(7.276)(6.944)Observations $7,607$ $7,607$ $7,607$		(0.341)	(0.3/1)	(0.265)
Advertising Intensity $(3.985)$ $(3.919)$ $(3.395)$ Advertising Intensity $0.161$ $0.077$ $0.186$ R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ Constant $4.502$ $2.316$ $0.214$ Observations $7,607$ $7,607$ $7,607$	Firm Age	-1.830	-0.702	0.567
Advertising Intensity $0.161$ $0.077$ $0.186$ R&D Intensity $(0.167)$ $(0.166)$ $(0.146)$ R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ $(0.561)$ $(0.630)$ $(0.565)$ Constant $4.502$ $2.316$ $0.214$ Observations $7,607$ $7,607$ $7,607$		(3.985)	(3.919)	(3.395)
R&D Intensity $(0.167)$ $(0.166)$ $(0.146)$ R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ $(0.561)$ $(0.630)$ $(0.565)$ Constant $4.502$ $2.316$ $0.214$ $(7.445)$ $(7.276)$ $(6.944)$ Observations $7,607$ $7,607$ $7,607$	Advertising Intensity	0.161	0.077	0.186
R&D Intensity $-0.872^*$ $-0.808^*$ $-0.930^{**}$ Board independence ratio $(0.453)$ $(0.449)$ $(0.441)$ Board independence ratio $-0.068$ $-0.082$ $-0.359$ $(0.561)$ $(0.630)$ $(0.565)$ Constant $4.502$ $2.316$ $0.214$ $(7.445)$ $(7.276)$ $(6.944)$ Observations $7,607$ $7,607$ $7,607$		(0.167)	(0.166)	(0.146)
$\begin{array}{cccc} (0.453) & (0.449) & (0.441) \\ & & & \\ \text{Board independence ratio} & & & \\ & & & \\ \text{Board independence ratio} & & & \\ & & & \\ \text{Constant} & & & \\ & & & \\ \text{Constant} & & & \\ & & & \\ & & & \\ \text{Constant} & & & \\ & & & \\ & & & \\ \text{Constant} & & & \\ & & & \\ & & & \\ & & & \\ \text{Constant} & & & \\ & & & \\ & & & \\ & & & \\ & & & \\ \text{Constant} & & \\ & & & \\ & & & \\ & & & \\ & & & \\ & & & \\ & & & \\ \text{Constant} & & \\ & & & $	R&D Intensity	-0.872*	-0.808*	-0.930**
Board independence ratio-0.068-0.082-0.359(0.561)(0.630)(0.565)Constant4.5022.3160.214(7.445)(7.276)(6.944)Observations7,6077,6077,607		(0.453)	(0.449)	(0.441)
(0.561)(0.630)(0.565)Constant4.5022.3160.214(7.445)(7.276)(6.944)Observations7,6077,6077,607	Board independence ratio	-0.068	-0.082	-0.359
Constant4.5022.3160.214(7.445)(7.276)(6.944)Observations7,6077,6077,607		(0.561)	(0.630)	(0.565)
(7.445)(7.276)(6.944)Observations7,6077,6077,607	Constant	4.502	2.316	0.214
Observations 7,607 7,607 7,607		(7.445)	(7.276)	(6.944)
	Observations	7,607	7,607	7,607
Number of firms 1,544 1,544 1,544	Number of firms	1,544	1,544	1,544

Table 5 Analysis Using an Alternate Performance Aspiration Measure

Standard errors in parentheses, \*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1Note: Both binary and continuous measures for above and below performance aspirations were used in the models.

	(1)	(2)	(3)
VARIABLES	CSR	CSR	CSR
Below Historical $\times$ Below Social $\times$ Affected $\times$ T	0.117**		
Above Historical $\times$ Below Social $\times$ Affected $\times$ T	(0.050)	-0.093	
Below Historical $\times$ Above Social $\times$ Affected $\times$ T		(0.107)	-0.265* (0.161)
Affected $\times$ T	1.180*** (0.113)	1.215*** (0.113)	(0.101) 1.259*** (0.117)
Affected	0.093	0.110	0.131 (0.118)
Т	0.473*** (0.119)	0.456*** (0.121)	0.470*** (0.123)
Below Historical $\times$ Affected $\times$ T	-0.193* (0.099)	<b>`</b>	-0.300*** (0.110)
Above Historical $\times$ Affected $\times$ T		-0.051 (0.092)	
Below Social $\times$ Affected $\times$ T	-0.328*** (0.121)	-0.307*** (0.106)	
Above Social $\times$ Affected $\times$ T		. ,	-0.096 (0.143)
Below Historical $\times$ Below Social $\times$ T	-0.064* (0.033)		
Above Historical $\times$ Below Social $\times$ T		-0.029 (0.079)	
Below Historical $\times$ Above Social $\times$ T			0.362** (0.151)
Below Historical $\times$ Below Social $\times$ Affected	0.013 (0.044)		
Above Historical $\times$ Below Social $\times$ Affected		0.025 (0.083)	
Below Historical $\times$ Above Social $\times$ Affected			0.168 (0.122)
Below Historical × Below Social	0.088*** (0.029)		
Above Historical × Below Social		-0.052 (0.064)	
Below Historical × Above Social			-0.249** (0.116)
Below Historical × T	0.117 (0.087)		0.137 (0.096)
Above Historical × T		-0.148** (0.076)	
Below Social $\times$ T	-0.101 (0.077)	-0.161** (0.067)	
Above Social $\times$ T			0.158 (0.134)

 Table 6

 Influence of Mandatory CSR on Firms' Behavior Using Difference in Differences Method

Below Historical ×Affected	0.082		0.111
	(0.088)	0.021	(0.088)
Above Historical × Affected		-0.031	
		(0.071)	
Below Social × Affected	0.026	0.082	
	(0.101)	(0.087)	
Above Social × Affected			-0.129
			(0.117)
Below Historical	-0.183**		-0.193**
	(0.080)		(0.078)
Above Historical		0.089	
		(0.058)	
Below Social	-0.071	-0.038	
	(0.060)	(0.054)	
Above Social			-0.015
			(0.109)
Liquidity	-0.004	-0.014	0.008
	(0.056)	(0.055)	(0.054)
Leverage	-0.062	-0.077	-0.172**
-	(0.060)	(0.049)	(0.086)
Firm Age	0.096	0.084	0.095
C	(0.096)	(0.096)	(0.097)
Advertising Intensity	-0.047*	-0.043*	-0.028
	(0.025)	(0.025)	(0.025)
R&D Intensity	0.054*	0.047	0.062*
	(0.032)	(0.033)	(0.033)
Board independence ratio	0.072**	0.075**	0.081**
Bourd independence funo	(0.035)	(0.075)	(0.031)
Constant	(0.035)	(0.055)	(0.033)
Constant	(0.216)	(0.345)	0.303
	(0.516)	(0.517)	(0.321)
Industry and year effects	Yes	Yes	Yes
Observations	12,560	12,560	12,560
K-squared	0.101	0.099	0.088
Number of firms	1,570	1,570	1,570
Kobust standard errors in parentheses; *	** p<0.01, ** p<0.05, * p<0.1		

Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1



Figure 1 Performance Feedback and CSR Patterns<sup>9</sup>

<sup>&</sup>lt;sup>9</sup> The results for the coefficient-estimate for the scenario when firms surpass both historical and social performance levels ( $\beta = 0.406$ ) is available with the authors.