Revisiting the Impact of Corporate Social Responsibility on Firm Performance in India: An Application of the Panel Threshold Approach

Baikunthanath Sahoo, Santosh Kumar Sahu, Krishna Malakar
Department of Humanities and Social Sciences, Indian Institute of Technology Madras, India

Abstract

This study aims to explore the non-linear relationship between Corporate Social Responsibility (CSR) and firm performance. In addition, we also investigate the mediating effect of firms' innovation and pro-environmental strategies in explaining the relationship. This research is conducted both at aggregate and disaggregated levels. Our sample consists of 21,138 firm-year observations collected from the Centre for Monitoring Indian Economy (CMIE) prowess database for the period 2009 to 2021 in India. The empirical findings reveal a significant negative relationship between CSR and the financial performance of firms with a positive effect on the lag of CSR. Using the Panel Threshold Model (PTR), we also arrive at a non-linear relationship between CSR and corporate financial performance, suggesting that after a certain threshold, the effect is positive by improving firm performance. Our results also indicate that a firm's pro-environmental strategy mediates the relationship between CSR and firm performance, whereas corporate innovation is not a significant mediating factor. The result is more evident at disaggregate level analysis. The outcomes of this study have significant policy implications and managerial insights. Consequently, these findings enhance executives' understanding of the significance of CSR as a strategy to strengthen internal resources to achieve sustainable competitive advantage.

Keywords: Corporate Social Responsibility, Environmental Strategy, Firm Performance, Indian Firms, Panel Threshold Regression