Title: The Impact of Mandated Corporate Social Responsibility: Evidence from India's Companies Act of 2013

Authors: Dhammika Dharmapala, Vikramaditya Khanna

PII:	S0144-8188(18)30118-2
DOI:	https://doi.org/10.1016/j.irle.2018.09.001
Reference:	IRL 5810
To appear in:	*International Review of Law and Economics*
Received date:	4-5-2018
Revised date:	8-9-2018
Accepted date:	12-9-2018

Please cite this article as: Dharmapala D, Khanna V, The Impact of Mandated Corporate Social Responsibility: Evidence from India's Companies Act of 2013, *International Review of Law and amp; Economics* (2018), https://doi.org/10.1016/j.irle.2018.09.001

The Impact of Mandated Corporate Social Responsibility: Evidence from India's Companies Act of 2013

Dhammika Dharmapala , Vikramaditya Khanna ,

Dhammika Dharmapala
University of Chicago Law School
dharmap@uchicago.edu

Vikramaditya Khanna
University of Michigan Law School
vskhanna@umich.edu

First draft: November 2016
This draft: September 2018

Highlights

- A comply-or-explain CSR obligation in India's company law increases CSR activity

Abstract

Firms' Corporate Social Responsibility (CSR) activity has become the subject of a large literature in recent years. This paper analyzes CSR activity using quasi-experimental variation created by Section 135 of India's Companies Act of 2013, which requires (on a "comply-or-explain" basis) that firms satisfying specific size or profit thresholds spend a minimum of 2% of their net profit on CSR. We examine effects on CSR spending and related outcomes, as well as exploring broader theoretical implications. Our analysis uses financial statement data on Indian firms from the Prowess database, along with hand-collected data from firms' disclosures of CSR activity. Using a difference-in-difference approach, we find significant increases in CSR activity among firms affected by Section 135, especially along the extensive margin (i.e. in the fraction of firms engaging in CSR spending). The fraction of firms subject to Section 135 that engage in advertising expenditures declines, consistent with substitution between advertising and CSR. For a subset of large firms, we hand-collect comprehensive CSR data and find that while firms initially spending less than 2% increased their CSR activity, large firms initially spending more than 2% reduced their CSR expenditures after Section 135 came into effect. We explore various explanations for this presumably unintended consequence of Section 135, and also seek to derive some wider implications of this analysis for understanding the role of CSR.

1) Introduction

A vast literature on firms' Corporate Social Responsibility (CSR) activity has emerged in recent years across a number of scholarly disciplines, including law, economics, management,