Economics
Seminar
Series
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SOUTH ASIAN UNIVERSITY
FACULTY OF ECONOMICS

Seminar

Incentives for Corporate Social Responsibility in India: Mandate, Peer Pressure and Crowding-Out Effects

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Date: **April 5, 2019**
(Friday)
Time: 2:30 p.m.
Venue: FSI Hall, Akbar Bhawan,
Satya Marg, Chanakyapuri, New Delhi

All are Welcome

ABSTRACT

The Companies Act went into effect in India on April 1, 2014 making it the first law in the world to mandate that companies spend 2% of their profits on corporate social responsibility (CSR) initiatives. We use panel data for 39,736 firms with a difference-in-difference model to estimate the average treatment effect of the Act on firms 'eligible' for compliance and, in particular, to investigate the role of peer pressure in influencing a firm's response to the Act in 2015 and 2016. We also apply the Regression Discontinuity Design method to estimate the average effect of treatment assignment for firms near the threshold of eligibility for compliance. We find that while the Act failed to achieve its 2% goal, it did lead to a statistically significant increase in the likelihood of reporting of CSR expenditures and to eligible firms spending an average of 1% of their profits on CSR. We also find that the otherwise positive and statistically significant effect of peer pressure in motivating CSR diminishes after controlling for the requirement of CSR expenditures proportional to profits by the Act. This implies a crowding out of intrinsic motivations for CSR by extrinsic effects due to the regulation.