


A Case for Mandatory Corporate Social Responsibility (CSR) in India*



LEE Woong

Ph.D., Research Fellow,
International Macroeconomics Team
Korea Institute for International Economic Policy 

Corporate Social Responsibility (CSR) in India is particularly interesting because there is a long tradition of firms' contribution to society even before the terminology of CSR was introduced, although India is a developing country. More interestingly, it is the first country to enact mandatory CSR in the globe. According to Section 135 of Chapter IX under the Companies Act, which was revised in 2013, a company becomes eligible for CSR with a net worth of more than 5 billion Rupees (approximately USD 75 million), turnover of more than 10 billion Rupees, or net profit of more than 50 million Rupees. All eligible companies under the Act must constitute a CSR committee of the board consisting of at least three directors. The committee must ensure that the company spends at least 2 percent of the average net profit of the company earned during the three immediately preceding financial years, in pursuance of its CSR policy. Since this is the first case in the world of a mandatory CSR provision being introduced, the consequences of the revised Act are of much importance.

I investigated the effect of the revision of the Companies Act in India on firms' CSR participation and their profits. For the analysis, I performed a

quasi-experimental analysis by using the data collected from firms' annual financial statements. My identification strategies were based on the newly introduced CSR requirements within Section 135 of Chapter 9 in the Companies Act of 2013. My work is the first one that evaluates the effects of the revision of the Companies Act in India, i.e. the mandatory CSR provisions, on firms' behavior and performance.

I found that the revision of the Companies Act imposing mandatory CSR on the eligible firms leads to an increase in the probability of eligible firms' CSR incurrence, yet the impact is not remarkable: the difference between the eligible and ineligible firms is only 2.3 percentage points. However, the evidence shows that there is a differential in profit between the eligible and ineligible groups after the provision of mandatory CSR was introduced by the revision of the Act. The differential of profit is 3.5 percent between eligible and ineligible firms. This finding implies that the policy intervention to introduce mandatory CSR did improve the profits of firms to which the provision of mandatory CSR is applicable.

These findings support the effectiveness of the revision of the Companies Act imposing mandatory CSR. There are distinct differences between the eligible and ineligible groups in CSR participation and their profits. Thus, private provision of public goods and profit-maximizing CSR are valid in the case of India. In short, it is suggested that the Indian government's policy intervention in exercising mandatory CSR has been successful.

However, the limited CSR participation by the eligible firms should be considered. The reason that there are only 2.3 percentage points of higher probability by applicable firms may be due to the weak legal binding force. Applicable firms that fail to meet the requirement of spending CSR expenses of at least 2 percent of net profit are only required to provide the reasons for this in their annual reports. As presented by the Ministry of Corporate Affairs, only 30 percent of applicable firms by law spent CSR expenses during the first year of the revision being in effect. If the provision was more binding or binding enough to induce a sufficient level of firms' CSR incurrence, then this mandatory CSR provision would have been more effective such that firms' CSR participation could have increased to a sufficient level and these applicable firms' profits could have been more substantially improved, thanks to their CSR involvement. [KIEP](#)

* This article further expands on the content previously published in "Determinants and Consequences of Corporate Social Responsibility: Evidence from the Revision of the Company Act in India", KIEP Working Paper 17-01.