THE EFFICACY OF INVOLUNTARY CORPORATE GOVERNANCE REGULATIONS

A Doctoral Dissertation Submitted in Partial Fulfillment of the Requirements for the Award of the degree of

DOCTOR OF PHILOSOPHY

IN

MANAGEMENT

BY

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DECLARATION

I, Salu V Prasad, hereby declare that this thesis entitled "***The Efficacy of Involuntary Corporate Governance Regulations***" in fulfillment of the requirements for the award of Degree of Doctor of Philosophy in Management Studies, is the outcome of an original study, free of plagiarism, undertaken by me, under the supervision of Prof. Vijaya Bhaskar Marisetty, Professor, School of Management Studies, University of Hyderabad.

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Below are the details of Publications, Conferences & Coursework pursued during Ph.D.:

A. Journal Publication

Marisetty, V. B., & Prasad, S. (2022). On the side effects of mandatory gender diversity laws in corporate boards. Pacific-Basin Finance Journal, Elsevier 73, 101741. [*ABDC A Journal*]

B. Conferences

a. Presented paper titled "Should CSR Spending Remain Voluntary?" at Summer Research Conference 2020 conducted by Centre for Analytical Finance (CAF), Indian School of Business (ISB), Hyderabad, India in August, 2020.
b. Presented paper titled "Should CSR Spending Remain Voluntary?" at 7th PAN-IIM World Management Conference organized by Indian Institute of Management, Rohtak, India in December, 2019.
c. Presented paper titled "Women's Influence in the Corporate Board – A Social Network Analysis" at 2nd International Conference on Network Science in Economics and Finance (NSEF 2019) conducted by Indian Institute of Management, Ahmedabad, India in December, 2019.
d. Presented paper titled "Should CSR Spending Remain Voluntary? Evidence from an Emerging Market" at 10th Conference on Excellence in Research and Education (CERE 2019) held at Indian Institute of Management, Indore, India in May, 2019.
e. Presented paper titled "Gender, Financial Empowerment and Business Venture Propensity" at 10th Conference on Excellence in Research and Education (CERE 2019) held at Indian Institute of Management, Indore, India in May, 2019.
f. Presented paper titled "Should CSR Spending Remain Voluntary? Evidence from an Emerging Market" at 12th Doctoral Thesis Conference conducted by IBS, Hyderabad, India in April, 2019.
g. Presented paper titled "Sustainable Supply Chain Management – A Review" at 2-day National Seminar on Innovations and Sustainable Growth In Business Management – Opportunities and Challenges conducted by Department of Management Studies, Maulana Azad National Urdu University, Hyderabad, India in February, 2018.

C. Workshops

a. Attended IIMA Doctoral Scholars' School 2019 (DSS 2019) conducted by Indian Institute of Management, Ahmedabad, India in September, 2019.

b. Attended 4-day Workshop on Advanced Econometrics for Research in Social Sciences Using R conducted by School of Management Studies, University of Hyderabad, India from March 29 to April 1, 2019.

c. Attended Faculty Development Programme (FDP) on Statistical Model Building Using R conducted by School of Management Studies, University of Hyderabad, India in May, 2018.

d. Attended 2-day Workshop on R Programming – A Statistical Tool organized by Department of Management Studies, University of Madras, India in March, 2018.

e. Attended 10-day Research Methodology Workshop cum Quality Improvement Program for Ph.D. Scholars sponsored by Indian Council of Social Science Research (ICSSR) organized by Department of Commerce, Pondicherry University, Puducherry, India from January 29 to February 07, 2018.

f. Attended 8-day National Level Workshop on Statistical Analysis for Business Research organized by Department of Management Studies, Pondicherry University, Puducherry, India in January, 2018.

g. Attended 3-day Workshop on Data Analysis Using SPSS organized by Department of Management Studies, National Institute of Technology, Trichy, India in November, 2017.

h. Attended Faculty Development Programme (FDP) on Microsoft Excel Applications in Finance organized by School of Management Studies, University of Hyderabad, India in March, 2017.

Further, the student has passed the following courses towards fulfillment of the coursework requirement for PhD:

Course Code	Name	Credits	Pass / Fail
1. MS-801	Statistics for Business Analytics	3	Pass
2. MB-802	Quality Measurement and Quality Systems	3	Pass
3. EG-825	Academic Writing for Doctoral Students	4	Pass
4. Core	Research Methodology	4	Pass

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DEDICATION

This dissertation is lovingly dedicated to my family. Without the support, encouragement, tolerance and sacrifice of my Pappa, Prasad, my Amma, Sujatha, and my sister, Seena, this would not have been possible. Everything I am, I owe to them and dedicate this work to them.

To

Pappa, Amma, Seena, and Aami…….

ACKNOWLEDGEMENT

My sincere thanks to all the people who have helped and made it possible for me to complete this Ph.D. dissertation.

I am extremely grateful to my research supervisor, Prof. Vijaya Bhaskar Marisetty, whose guidance, encouragement, and mentorship have enabled me to complete my thesis. I am humbled and grateful to Prof. B. Raja Shekhar for his valuable time, love and support. I am grateful to my doctoral committee members, Prof. Mary Jessica, and Dr. Lokanandha Reddy for their valuable time, insights, and assistance. I am also thankful to all other faculty members of SMS, UoH for all their help and support.

I appreciate my co-scholars Sairam, Athira, Srikant and Shreyansh for helping me with data collection from CSR reports. I thank Shankar for all the data related help. I am also thankful to my co-authors, Prof. Sefa Awaworyi Churchill, Naseef, and Rafi, for their partnership on various research projects. Special thanks to Ewan for offering so much of his time to talk with me, and review my work.

I am forever indebted to my parents, Prasad and Sujatha, for years of love, support and understanding. They gave me the freedom to take decisions for myself and never put social pressures on me. To them, “thanks” is far from enough, but it will have to suffice for now, and it truly comes from the bottom of my heart. I could not have completed this thesis without my sister, Seena. It was her constant encouragement which sustained me through this process. Special thanks to Aami, my niece for charging me up with her infectious smile during this stressful journey.

I truly appreciate all my friends at UoH who made this journey a more enriching experience. In particular, Rasheed, Suresh, Akbar, Muhsin, Ajay, Shoeb, Akhil, Ranjan, Susmita, Namrata, Nusarat, Ramshi, Gokul, Raseena, Muhsina, and Bashid. I am so lucky to have the support and friendship of Jintu, Arpita, Sreelakshmi, Stephy, Jabez, and Jaya.

I would like to extend my gratitude to my fellow Ph.D. cohort, staff and all the kind people along this journey. Finally, I gratefully acknowledge the financial support from the University Grants Commission.

Thank you

ABSTRACT

Corporate Governance (CG) regulations are evolving across the world. Apart from the enactment of CG regulations, the efforts of regulators' to make the business accountable to the shareholders and stakeholders are continuing. This thesis consists of two studies that examine the efficacy of forced corporate governance regulations. The underlying question that the thesis tries to address is whether forced corporate regulations really work. The first study, titled 'Should We Regulate Corporate Social Responsibility Spending?', exploit a counterfactual regulation that forced profitable Indian firms to contribute a minimum of 2 percent of their net profit towards Corporate Social Responsibility (CSR) to assess whether CSR spending should remain voluntary or regulated. The second, titled 'On the Side Effects of Mandatory Gender Diversity Laws in Corporate Boards', investigate how reducing Representation-based Gender Gap (RGP) through regulatory measures would impact the compensation-based gender gap (CGP).

This first study examines the efficacy of mandatory CSR spending law by assessing the incremental impact of changing from disclosure regulation regime to penalizing regulation. We examine if the market responds to the change in the legal status of CSR positively or negatively. We identify firms that did not respond to awareness but responded to penalty and firms that responded to awareness and continue to do so when a penalty is introduced. Further, we explore the intra-organizational dynamics in CSR implementation by focusing on how CSR managers' discretion improves the CSR-CFP relationship. Our results show no significant difference in firm-level accounting and market performance, attributable to mandatory CSR spending law, between the involuntary firms (treated firms) and voluntary firms (control firms). Our results based on hand-collected data on each firm's specific CSR initiatives indicate that voluntary and involuntary firms spent on similar areas/projects. Further, variations in managerial involvement and commitment to CSR initiatives have no significant effect on firm financial performance. Overall, our results do not find any clear trend that indicates significant adverse financial performance effects of forcing firms to spend 2 percent of their profits on CSR.

In the case of the mandatory gender quota law, we investigate how reducing *RGP* would impact the *compensation-based gender gap - CGP*. We contend that a reduction in *RGP* may not necessarily reduce *CGP*. On the contrary, it may widen the *CGP*. A sudden compulsory gender quota law either increases the supply of female directors in the

directors' labor market or, in the case of the immediate supply shortage, increases the directorships for non-rookie female directors (NRFDs) currently serving in firms. In other words, there can be either supply overshoot or supply shortage due to the mandatory gender quota system. Supply overshoot tends to reduce female directors' overall bargaining power, thus leading to the widening of *CGP*. In the case of a supply shortage, the unmet demand for female directors can increase NRFDs' bargaining power and reduce *CGP* in the short run. However, this may come at the cost of creating entry barriers to rookie female directors, thus leading to a lag in talent acquisition in the female directors' pool. Such situation can increase *CGP* in the long run.

One major implication of our results is that the regulator's aggressive decision to force firms on CSR spending did not yield any dramatic adverse effect on forced firms' financial performance. On the contrary, such a bold move can reduce the gap between perceived importance and practiced CSR. The results of the study can act as a catalyst to encourage more regulators across the world to introduce similar regulations. Enactment of a gender quota forces firms to appoint board members who would not find their place in the board otherwise, leading to strong implications with respect to board composition and functioning. Our study calls for more understanding of the possible adverse spill-over effects associated with governments' strong push for *RGP* in several countries. In other words, our study also calls for a more holistic approach to addressing the gender gap in corporate boards.

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LIST OF ABBREVIATIONS

AI	Advertising Intensity
BRR	Business Responsibility Report
BSE	Bombay Stock Exchange
C&S	Carrots & Sticks
CFO	Chief Finance Officer
CFP	Corporate Financial Performance
CG	Corporate Governance
CGP	Compensation-based Gender Gap
CMIE	Centre for Monitoring Indian Economy
CRISIL	Credit Rating Information Services of India Limited
CS	Company Secretary
CSR	Corporate Social Responsibility
DER	Debt Equity Ratio
DiD	Difference in Difference
EPG	Economic Policy Group
ESG	Economic, Social, and Governance
EU	European Union
GGI	Gender Gap Index
GRI	Global Reporting Initiative
IIM	Indian Institute of Management
IIT	Indian Institute of Technology
INR	Indian Rupees
IVA	Involuntary Affected
M & A	Mergers & Acquisitions
MBR	Market to Book Ratio
MCA	Ministry of Corporate Affairs
MSCI	Morgan Stanley Capital International
NGRBC	National Guidelines for Responsible Business Conduct
NRFD	Non-Rookie Female Director
NRMD	Non-Rookie Male Director

NVGs	National Voluntary Guidelines
OECD	Organization for Economic Cooperation and Development
OLS	Ordinary Least Squares
PSM	Propensity Score Matching
R & D	Research & Development
RDD	Regression Discontinuity Design
RDI	R & D Intensity
RFD	Rookie Female Director
RGP	Representation-based Gender Gap
RMD	Rookie Male Director
ROA	Return on Assets
ROCE	Return on Capital Employed
ROE	Return on Equity
RONW	Return on Net Worth
RQ	Research Question
S&P	Standard and Poor's
SEBI	Securities and Exchange Board of India
SEC	Securities and Exchange Commission
SOX	Sarbanes Oxley Act
UAE	United Arab Emirates
UK	United Kingdom
UNGP	United Nations Guiding Principle
UNHRC	United Nations Human Rights Council
US	United States
USB	University of Stellenbosch Business School
VA	Voluntary Affected
WEF	World Economic Forum

CHAPTER 1

INTRODUCTION

Government regulation is pervasive in all spheres of our everyday life (Shleifer, 2005). It plays a significant role in the progress of financial markets and ensures the participation of the wider population in financial markets (Glaeser, Johnson, & Shleifer, 2001; La Porta, Lopez-de-Silanes, Pop-Eleches, & Shleifer, 2004) and is widely employed across the world (Christensen, Hail, & Leuz, 2019). Regulations are extremely important in the securities market as many investors have lost their life savings in the recurring Ponzi schemes that are pervasive in developed countries with strong regulatory frameworks and developing countries with weaker regulatory frameworks (Carvajal, Monroe, Wynter, & Pattillo, 2009; Cortés, Santamaría, & Vargas, 2016; Shleifer, 2005). Societies accept a higher level of government intervention to control disorder in situations where fraud cannot be eliminated simply through market self-discipline (Shleifer, 2005). Shleifer (2005) proposes "the Enforcement Theory of Regulation," which sees regulation as the more efficient strategy for social control of the business. He further argues that instead of the prospect of loss recovery via litigations, investors desire to have a level-playing regulated field in securities markets (Shleifer, 2005). As a result, securities markets are heavily regulated in most parts of the world (Allen & Herring, 2001; Mahoney, 2021). However, securities market regulations are not free from problems. Concerns of ability and motive of the regulator, moral hazard, enforceability, etc., are associated with securities regulation (Niemeyer, 2001).

Information asymmetry and agency problems are pervasive in the securities market (Healy & Palepu, 2001; Mahoney, 2021) and act as a major reason for the implementation of securities regulation (Healy & Palepu, 2001) particularly mandatory disclosure (Mahoney, 2021). Allen and Herring (2001) identify the protection of investors and improving efficiency as the primary

purposes of regulation in the securities market. The absence of conditions of perfect competition and the existence of information asymmetry allows managers and corporate insiders to take unfair advantage of investors by exploiting regulatory inadequacy (Bose, 2005; Dechow, Lawrence, & Ryans, 2016; Ke, Huddart, & Petroni, 2003). The presence of regulation in securities markets deters such opportunities and avenues of exploitation.

Price manipulation and fraud adversely affect the orderly functioning of securities markets. Such malpractices are causing substantial financial loss to investors and disrupting the efficient allocation of investible resources in the economy (Bose, 2005). The absence of adequate risk management and dearth of transparency and accountability by corporate boards are alleged reasons for the crumble of many major financial institutions (Minow, 2008; Zingales, 2009). Regulations are generally introduced as a response to demand from the public following a crisis (Hart, 2009). The introduction of the Sarbanes-Oxley Act (SOX Act) in the US is an example of this. Corporate fraud scandals in recent years resulted in significant regulatory changes (Ratzinger-Sakel & Tiedemann, 2021). Several other regulations are justified as it helps to attain comprehensive social objectives such as facilitating home ownership and combating organized crime (Allen & Herring, 2001). However, there is a contradictory view on the effect of government intervention on investors' trust and confidence in the stock market (Hochberg, Sapienza, & Vissing- Jørgensen, 2009; Sapienza & Zingales, 2012). Opponents of government intervention argue that it leads to sub-optimally large amounts of resources being spent on disclosure and governance issues (Hochberg et al., 2009) and the skepticism that government intervention is driven by business houses (Hochberg et al., 2009).

Financial failures in the real economy are alleviated through regulation as it avoids market failure, improves market transparency, sustains macroeconomic stability, and safeguards investors (Teall, 2013). The calls for regulatory reforms, specifically, Corporate Governance

(CG) regulations, have been on the rise ever since the events of financial crises such as the Asian financial crisis of 1997, the financial crisis in 2008, and corporate scandals like Enron and Worldcom in the United States and Satyam scam in India to name a few. Corporate reforms that reinforce CG and reinstate confidence in the financial system are essential to sustainable economic growth. Both developed and developing countries suffer from CG irregularities or failures of individual firms (Claessens & Yurtoglu, 2013).

During the East Asian crisis in 1997, it was established using country-wide information that stock market decline was significantly catalyzed by weak legal institutions for CG (Johnson, Boone, Breach, & Friedman, 2000; Mitton, 2002). In the early 2000s, the argument was made that in developed countries, corporate collapses (like Enron – loss of $74 billion), undue profit-boosting (by Worldcom – loss of $175 billion), managerial corporate looting (by Tyco – loss of $600 million), audit fraud (by Arthur Andersen), and inflated reports of stock performance (by supposedly independent investment analysts) led to crises of confidence among investors, leading to the declines in stock market valuation and other economy-wide effects, including some slowdowns in economic growth.

Agency problems may justify the expansion of the regulatory system into CG (Zingales, 2009). Improving the CG of the listed firms has become the focus of corporate reforms by regulators worldwide (Aggarwal, Schloetzer, & Williamson, 2019). However, disclosure regulations are widely used across the world as an alternative to regulations that demand or forbid certain behaviors (Leuz & Wysocki, 2016). As a result, the empirical evidence on the economic consequences of regulation largely focuses on the disclosure and financial reporting regulations (Beyer, Cohen, Lys, & Walther, 2010; Core, 2001; Healy & Palepu, 2001; Leuz & Wysocki, 2016). Regulators are unable to influence many aspects of CG directly and, thus, rely on regulation to have a spillover effect on non-mandated aspects of governance. Aggarwal et al.

(2019) advocate that the firm value differences between poorly governed and well-governed firms cannot be abolished but can be reduced through CG mandates. Due to the reasons mentioned above, CG regulations are widely popular worldwide to ensure the proper functioning of firms and economic stability.

Table 1.1

Types of CG regulations

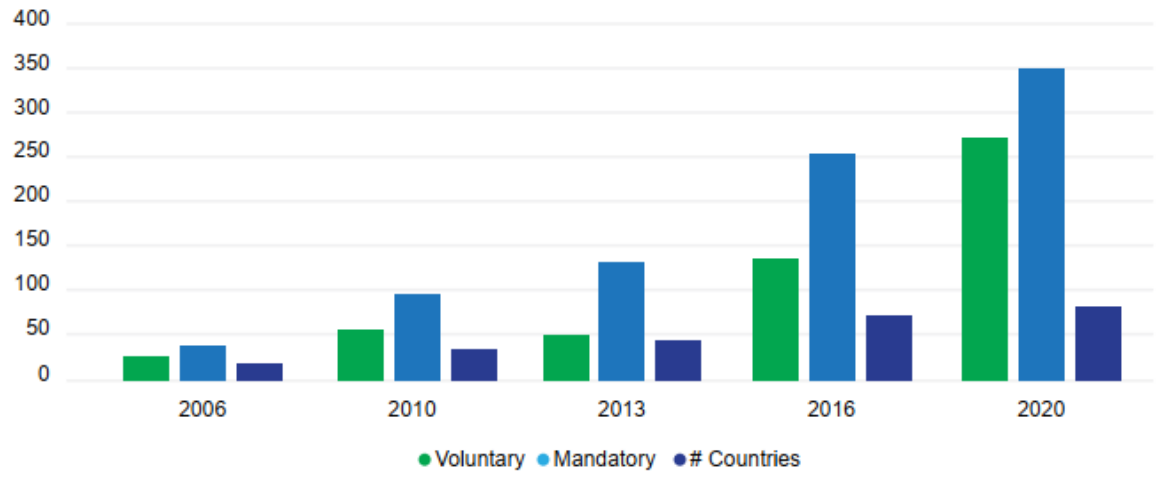
Structure non-varying regulations	**Structure varying regulations**
SOX Act 2002 - United States (US)	The mandatory quota for outsiders, 1999 - Korea
Clause 49 2004 - India	Board gender quota in various countries – 2006 (2015 in India)
Mandatory disclosure of environmental, social, and governance (ESG) information in China, Denmark, Malaysia, and South Africa.	Mandatory rotation of statutory auditors 2015 – India
Mandatory adoption of Corporate Social Responsibility (CSR) reporting standards in the United States	Mandatory CSR spending law 2015 – India
Mandatory nonfinancial disclosure directive of the EU, 2014	

CG regulations can be broadly classified into two based on the requirements, namely, structure varying and structure non-varying CG regulations. If the regulation requires the firm to disclose a new piece of information or to report the information they are already disclosing in a new format, the regulation can be considered as structure non-varying CG regulation. This type of regulation is relatively less costly to the firm and does not require the firm to make any physical change, and is widely popular across the world (evident from the gradual increase in the number of non-financial reporting requirements shown in Figure 1.1). The voluntary and mandatory non-financial reporting requirements implemented by regulators worldwide are examples of this kind of regulation.

On the other hand, if the regulation requires the firm to make any structural or physical change in the way they operate, undertake a new set of activities, or make some change in their decision-making body, it can be considered structure varying regulation. They are relatively costly regulations and have a more noticeable impact on the firm than structure non-varying regulations. Table 1.1 provides a list of both types of CG regulations. This thesis examines the efficacy of CG regulations implemented by considering two notable structure varying regulations mentioned in Table 1.1. First, the mandatory CSR spending law was implemented in India. As reported in Table 1.1, most of the non-structure varying regulations focus on encouraging the ESG and CSR reporting of firms. This claim is supported by Figure 1.1 as well.

Figure 1.1

Trends in non-financial reporting instruments [Number of Voluntary - Mandatory reporting provisions and countries covered]



Source: Carrots & Sticks report 2020

Figure 1.1 provides an overview of the global trends in mandatory and voluntary non-financial reporting requirements as provided by the Carrots & Sticks (C&S) 2020[1] report. The 2020 edition of C&S assesses the regulatory landscape of non-financial and sustainability reporting. The non-financial reporting requirements covered in this report primarily focus on improving the CG and CSR of firms worldwide. The surge in reporting instruments across the world evident in Figure 1.1 is a manifestation of the increased focus of governments and regulatory bodies on the CG and CSR activities of firms. Almost all countries implement disclosure requirements to improve the CSR of firms.

Table 1.2

Breakdown of Fortune Global 500 by geographical area and CSR data availability

Country	**Number of companies**	**CSR data available**
US	132	70%
China	95	67%
Japan	62	52%
France	31	84%
Germany	29	76%
UK	26	96%
Korea	14	79%
Switzerland	14	79%
Netherlands	12	75%
Australia	8	100%
Spain	8	100%
Brazil	8	88%
India	8	100%
Russia	7	57%
Other North America and Western Europe (10 countries)	31	68%
Other Asia and Pacific (4 countries)	5	80%
Other Latin America (3 countries)	5	20%
Other Eastern Europe (3 countries)	3	33%
Arab States (2 countries)	2	50%
Total (37 countries)	500	71%

[1] Carrots & Sticks aims to provide information on the trends in sustainability reporting standards across the world. It is an initiative by the UN Environment Programme jointly with KPMG International, GRI, and USB, based on the global survey of corporate sustainability reporting by KPMG. The first Carrots & Sticks report published in 2006 covering 19 countries, mainly the Organization for Economic Cooperation and Development (OECD) countries. It gradually increased its coverage to 84 countries in their latest report published in 2020.

Source: Bloomberg; Economic Policy Group (EPG) analysis

Companies of all sizes and sectors are encouraged to produce sustainability reports (synonymous with triple bottom line reports or ESG reports, or CSR reports) to become aware of their impact and let investors and other stakeholders make the decisions that would benefit, not harm a sustainable future. According to the first ever comprehensive study on global corporate CSR spending, the Fortune 500 companies spent US$20 billion on CSR in 2013[2]. However, this study shows that despite the increase in the implementation of CSR disclosure requirements across the world, even for the top 500 companies, CSR data availability is limited with wide variation across countries (Table 1.2). The study also finds that the majority of CSR spending, as large as 62% amounts to in-kind donations of products that a company makes or owns, and not monetary contributions. Out of the rest, 28% comprises of cash contributions from corporations and related foundations or trusts. The remaining 10% consists of employee volunteering, fundraising, and pro-bono activities.

However, among the structure varying regulations mentioned in Table 1.1, one regulation stands out, the mandatory CSR spending law enacted in India in 2014. Governments and regulatory bodies use various CSR governance instruments to regulate the CSR activities of firms (Jackson, Bartosch, Avetisyan, Kinderman, & Knudsen, 2020). The most widely used instruments in this regard are voluntary codes and non-financial disclosure regulations. The Government of India enacted this law that mandates CSR spending and specifies an exhaustive list of activities that form part of CSR activities. Before implementing the mandatory CSR spending law, the Ministry of Corporate Affairs (MCA), Government of India, introduced voluntary guidelines on CSR in 2009[3] as an initial step to regulate CSR activities. But as the

[2] https://www.varkeyfoundation.org/media/3042/bbe-epg-report%C6%92.pdf
[3] https://www.mca.gov.in/Ministry/latestnews/CSR_Voluntary_Guidelines_24dec2009.pdf

name indicates, these were just guidelines and were little in terms of enforcement. In 2010, the MCA began to move toward incorporating CSR, and a more mandatory version of CSR, into the Companies Act. In 2012, the Securities Exchange Board of India (SEBI) required disclosure of CSR spending by the largest 100 firms. With the implementation of Section 135 of the Companies Act in India, the regulatory regime on CSR has changed from a voluntary disclosure requirement to a mandatory spending law. In other words, disclosure law which is primarily considered an awareness creation regulatory instrument has changed to a penalty law.

Table 1.3

Global mandates on corporate board gender quota

	Market	**Requirement, type**	**Requirement, %**	**Requirement, other**	**Year Introduced**	**Due Date**
Gender Quotas, public companies	Austria		30%		2018	n/a
	Belgium	Mandatory	33%		2011	Varied
	Denmark	Mandatory	Varied	Set targets to reach 40%/60% between the genders	2013	n/a
	Finland	Comply or explain		At least one	2008	n/a
	France	Mandatory	40%		2011	2017
	Germany[4]	Mandatory	30%		2015	2016
	India	Mandatory		At least one	2015	Varied
	Israel	Mandatory		At least one	1999	n/a
	Italy	Mandatory	40%		2020	Applicable to new mandates
	Japan	Voluntary	30% of leadership positions		2014	2030
	Luxembourg	Comply or explain	40%		2014	2019
	Malaysia	Comply or explain	30%		2011	2016

[4] Mandatory gender quota to be introduced.

	Netherlands[5]	Comply or explain	30%		2013	n/a
	Norway	Mandatory	40%		2003	2008
	Pakistan	Mandatory		At least one	2019	Applicable to new mandates
	Portugal	Mandatory	20%/33.3%		2017	2018/2020
	Singapore	Voluntary	20% by 2020 25% by 2025 30% by 2030		2017	Varied
	Sweden	Comply or explain	50%		2016	
	Spain	Mandatory (no penalties for non-compliance)	40%		2007	2015
	South Korea	Mandatory		Large listed firms should not have boards comprised of only one gender	2020	2022
	Turkey	Comply or explain	25%		2013	n/a
	California (US)	Mandatory		At least two for five member boards; at least three for six, or more member boards	2018	2021
	UAE	Mandatory		At least one	2012	n/a
	UK	Voluntary	33%		2015	2020
State-owned (if different than	Austria		35%			
	Chile		40%			
	Colombia		30%			
	Denmark		60%			
	Finland		40%			
	Greece		33%			
	Ireland		40%			

[5] Mandatory gender quota under review.

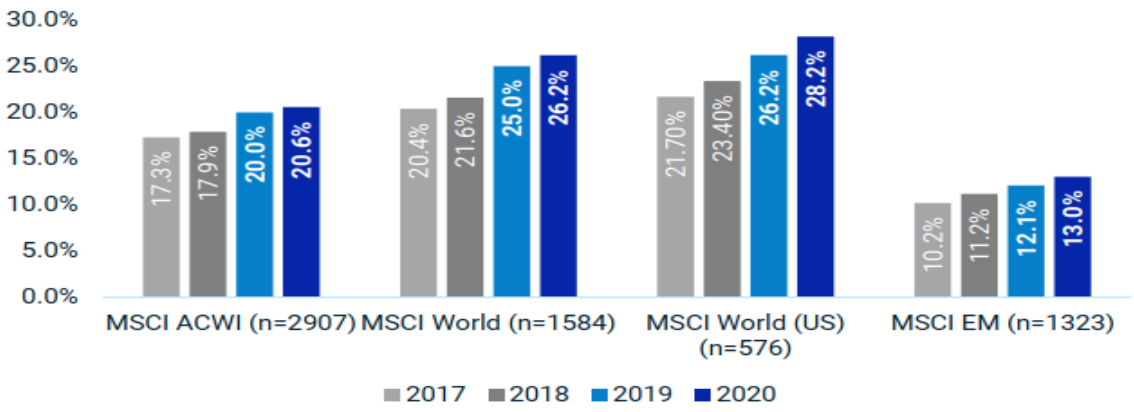
Israel	50%
Quebec	50%
South Africa	30%
Switzerland	30%

Source: MSCI Women on Board Progress Report, 2020

Another structure varying CG regulation we consider in this thesis is the mandatory board gender quota law. Table 1.2 details the mandatory and voluntary quotas in different countries on board gender diversity. Though the board gender quota law was implemented in many countries worldwide since 2006, India became the pioneer among the developing countries to adopt a mandatory gender quota on corporate boards. Figure 1.2 depicts the percentage of the female board of directors among various MSCI constituents over the period. It is evident from the figure that the emphasis on gender diversity in corporate boards is on the rise, with developed nations leading the way and the developing markets started following recently.

Figure 1.2

Percentage of women on boards, 2017-2020



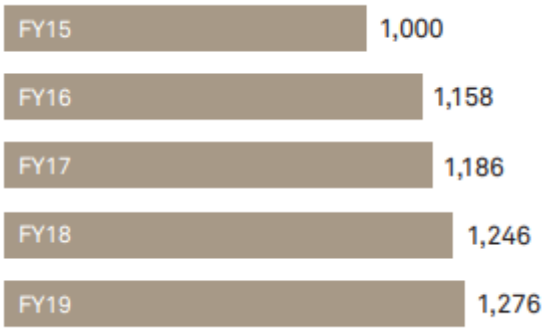
Source: MSCI Women on Board Progress Report, 2020

1.1 CG regulations in India

In this thesis, we examine the efficacy of CG regulations by considering two structure varying regulations implemented in India mentioned above. Though there are disclosure regulations in place in many countries across the globe, India became the first nation to enforce a mandatory CSR spending law. Initially, in India, CSR was a voluntary act of firms; it was the discretion of the firm whether or not to invest in CSR, just like in any other country. In response to the shift in CSR regulation from a voluntary disclosure to a mandatory spending regime, the number of Indian firms undertaking CSR projects and the average amount spent on CSR projects by Indian firms have gradually increased after enacting the mandatory CSR spending law in 2015. This is evident from the CRISIL CSR Yearbook 2020.

Figure 1.3

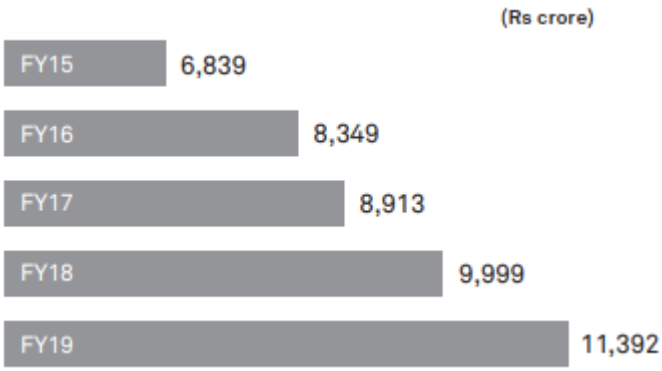
Number of firms reporting CSR spending



Source: CRISIL Yearbook 2020

Figure 1.4

Total CSR spent by listed firms



Source: CRISIL Yearbook 2020

With the implementation of the mandatory CSR spending law in India, the number of firms spending on CSR and the total amount spent on CSR over the post mandatory CSR spending period have gradually increased, as evident from Figures 1.3 and 1.4. Hence, in this thesis, we examine the financial performance effect of a change in the regulatory landscape in CSR spending from a voluntary code to a mandatory spending law.

Coming to the second regulation, unlike developed nations with a lower gender gap in general and labor force participation in particular, India, like many other developing nations, the labor market is highly segregated in terms of gender. Similarly, there is a noticeable gap in the corporate board representation of females. For instance, in India, females occupy only 13.8% of corporate board seats, whereas it is well above 40% in developed nations. Most importantly, the board gender quota in these countries differs from India, as it mandates the appointment of 30%-40% representation from each gender. Whereas in developing nations, principally, the board gender quota mandates the appointment of at least one-woman director. For instance, the gender quota law in India mandates the appointment of at least one female, which is less than 10% of the average number of directors in an Indian corporate board[6].

[6] https://www.spencerstuart.com/research-and-insight/boards-around-the-world?category=all-board-composition&topic=board-size

Indian data might provide new evidence on the efficacy of board gender quotas by providing one of the first instances of a developing market adopting gender quotas to promote board gender diversity. With rigid and longstanding societal norms deterring the advancement of women in the workplace, Indian firms would respond to gender quotas differently. The prospect of symbolic actions in board appointments is particularly salient in developing markets with lower corporate transparency, weak institutions, and less progressive societal attitudes towards gender equality. As Asian women are typically confined to domestic and familial roles, the impact of female board representation on firm financial performance may not be the same as that shown in prior research (Low, Roberts, & Whiting, 2015). The board gender quota primarily aims to reduce the *representation-based gender gap* (*RGP*) and *compensation-based gender gap* (*CGP*) in senior management positions (Bertrand, Black, Jensen, & Lleras-Muney, 2019). Although recent studies focus on the impact of board gender quotas on board characteristics and firm financial performance (Ahern & Dittmar, 2012; Bøhren & Staubo, 2016; Matsa & Miller, 2013), our understanding of *CGP* is limited. Recent evidence shows that board-level mandatory gender quotas are successful in breaking the glass ceiling at the top of the corporate hierarchy, to some extent, thus reducing the representation-based gender gap – *RGP* (Rebérioux & Roudaut, 2019; Yang, Riepe, Moser, Pull, & Terjesen, 2019). However, gender parity in pay seems hard to achieve.

1.2 Research questions

Based on the gaps identified from the extensive review of the literature, the following research questions are made:

- Whether mandatory CSR spending adversely affects firm financial performance?
- Whether CSR managers' discretion improve the CSR-Corporate Financial Performance (CFP) relationship?

- Whether board gender quota has an adverse effect on firm financial performance?
- Whether mandatory gender quota regulation widens compensation-based gender gap?

1.3 Research objectives

The primary objective of the study is to examine the efficacy of involuntary CG regulations. To attain this objective, the following sub-objectives are formed:

1. To understand whether mandatory CSR adversely affects firm financial performance.

2. To examine whether higher managerial involvement and commitment in CSR improves firm financial performance.

3. To understand whether firms that voluntarily improve board gender diversity perform better than involuntary companies.

4. To examine whether mandatory gender quota regulation widens the compensation-based gender gap.

1.4 Major findings

This thesis examines the efficacy of mandatory CSR spending law by assessing the incremental impact of changing from disclosure regulation regime to penalizing regulation. Identifying firms that did not respond to awareness but responded to penalty and firms that responded to awareness and continue to do that when a penalty is introduced, we examine if the market responds to the change in the legal status of CSR positively or negatively. Further, we explore the intra-organizational dynamics in CSR implementation by focusing on how CSR managers' discretion improves the CSR-CFP relationship. Our results show no significant difference in firm-level accounting and market performance, attributable to mandatory CSR spending law, between the involuntary firms (treated firms) and voluntary firms (control firms).

Our results based on hand-collected data on each firm's specific CSR initiatives indicate that voluntary and involuntary firms spent on similar areas/projects. We also find that spending CSR through direct managerial involvement compared to outsourcing CSR to third parties does not significantly affect voluntary and involuntary firms' financial performance. Finally, our managerial commitment results, where CSR actual spending is over and above the budgeted amount, suggest that managerial commitment neither improves nor deteriorates the financial performance of voluntary and involuntary firms. Overall, our results do not find any clear trend that indicates significant adverse financial performance effects of forcing firms to spend 2 percent of their profits on CSR.

In the case of the mandatory gender quota law, we investigate how reducing *RGP* would impact the *compensation-based gender gap - CGP*. We contend that a reduction in *RGP* may not necessarily reduce *CGP*. On the contrary, it may widen the *CGP*. A sudden compulsory gender quota law either increases the supply of female directors in the directors' labor market or, in the case of the immediate supply shortage, increases the directorships for non-rookie female directors (NRFDs) currently serving in firms. In other words, there can be either supply overshoot or supply shortage due to the mandatory gender quota system. Supply overshoot tends to reduce female directors' overall bargaining power, thus leading to the widening of *CGP*. In the case of a supply shortage, the unmet demand for female directors can increase NRFDs' bargaining power and reduce *CGP* in the short run. However, this may come at the cost of creating entry barriers to rookie female directors, thus leading to a lag in talent acquisition in the female directors' pool. Such evolution can increase *CGP* in the long run.

1.5 Contributions and implications

Our study on mandatory CSR spending law joins other studies that examine and try to understand the relationship between CSR spending and firm performance (Flammer, 2015a;

Flammer & Bansal, 2017; Garcia-Castro, Ariño, & Canela, 2010; Harjoto & Jo, 2011; Shen & Chang, 2009). Our study extends the literature by addressing the potential endogeneity problem with a cleaner counterfactual sample and brings richer data that captures the nature, method, and intent of CSR spending by firms. More importantly, our study contributes to the debate on keeping CSR spending as corporate managers' voluntary decision. One major implication of our results is that the Indian government's aggressive decision to force firms on CSR spending did not yield any dramatic adverse effect on forced firms' financial performance. On the contrary, such a bold move can reduce the gap between perceived importance and practiced CSR.

Our study on mandatory board gender quota law investigates the role of mandatory laws aimed at gender diversity in corporate boards from a developing country perspective where distinctively different socio-political and labor force demographics exist. Our study contributes to the broader literature on mandatory gender quotas, gender inequality in senior management positions, and gender inequality in compensation. Moreover, our study contributes to an emerging research area of Equity and Diversity in Finance (Linnenluecke, Chen, Ling, Smith, & Zhu, 2016, 2017). The results support our conjecture that the current push for board gender diversity can widen *CGP*, even when *RGP* narrows. To comply with the mandatory gender quota, Indian companies appointed female directors with similar educational qualifications. However, the gender pay gap persists, given the gender segregation in the labor market. Further, as suggested by Fortin (2019), understanding the sources of *CGP* is essential to devise policies that achieve greater effectiveness towards the goal of shrinking that gap. In summary, our study calls for more understanding of the possible adverse spill-over effects associated with governments' strong push for *RGP* in several countries. In other words, our study also calls for a more holistic approach to addressing the gender gap in corporate boards.

1.6 Thesis structure

The current study comprises five chapters and is organized as follows:

Chapter 1 (Introduction): This chapter provides a brief description of the main elements of this thesis. It starts with explaining the background of this research and the motivation of the study, followed by a justification of the two CG regulations used in the study, research questions, and objectives. It ends with an outline of how the thesis is organized.

Chapter 2 (Literature Review and Hypothesis Development): This chapter focuses on reviewing the extant literature on the predominance of voluntarism in CSR, the evidence of strategic benefits of voluntary CSR, the ongoing debate on voluntary vs. mandatory CSR, and the impact of the regulatory shift on managerial decision making. Special attention is given to the stream of literature on mandatory board gender quota and its impact on representation and compensation-based gender gap. It also provides literature on the demand vs. supply dynamics of female labor force participation and compensation.

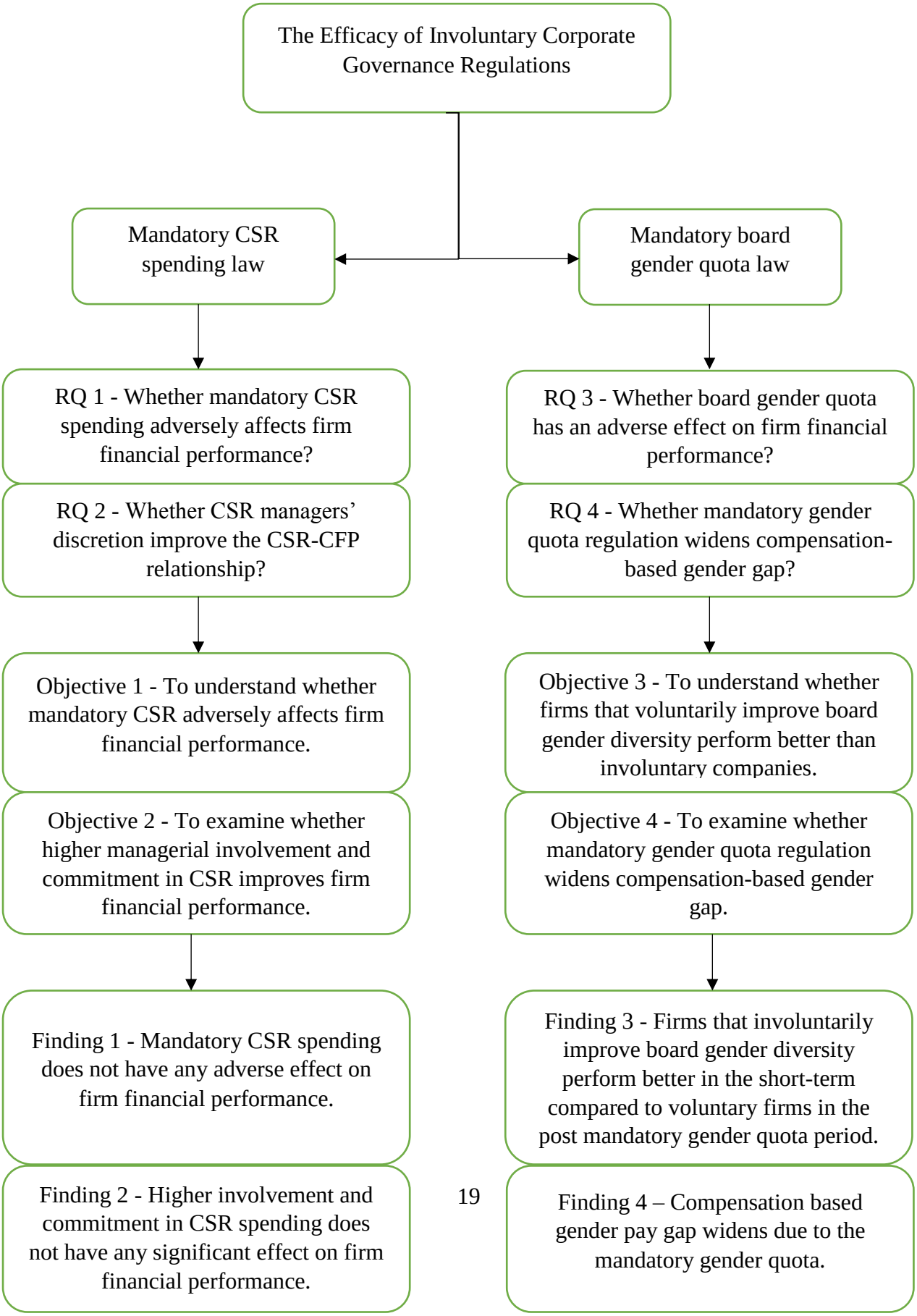
Chapter 3 (Data and Methodology – Study 1): This chapter begins with an overview of the regulatory setting on CSR in India. It elaborates on the data, variables used, and methodology adopted for Study 1. This chapter also discusses the tools and techniques used for statistical analysis. Further, it provides the results of the data analysis and their interpretations.

Chapter 4 (Data and Methodology – Study 2): This chapter begins with an overview of the regulation on board gender quota in India. It elaborates on the data, variables used, and methodology adopted for Study 2. This chapter also discusses the tools and techniques used for statistical analysis. Further, it provides the results of the data analysis and their interpretations.

Chapter 5 (Conclusion): This chapter presents the study's conclusions and briefs the academic relevance and practical implications of the study. It ends with the limitations of the present study and the scope for future research.

Flowchart 1.1

Thesis structure



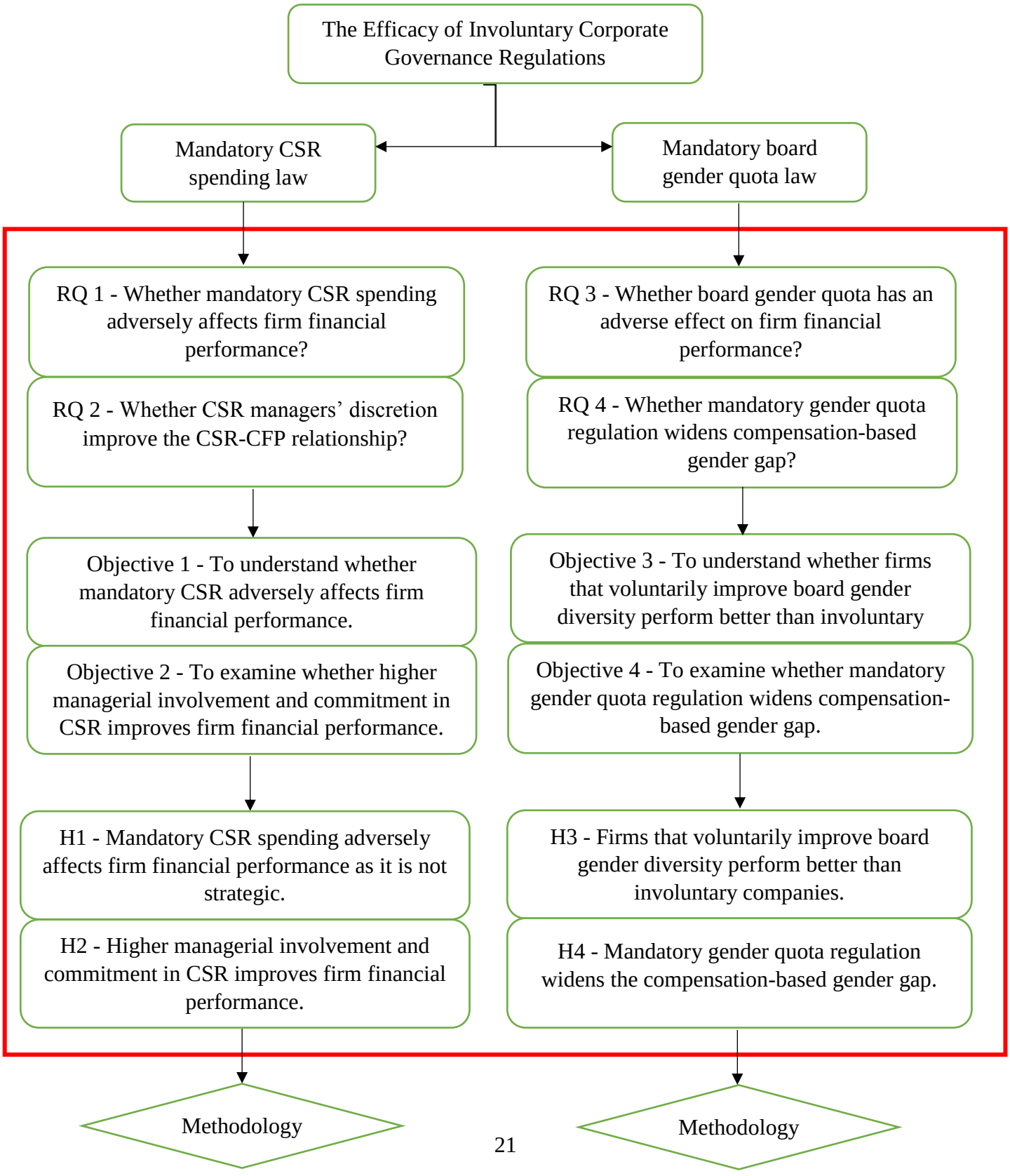
CHAPTER 2

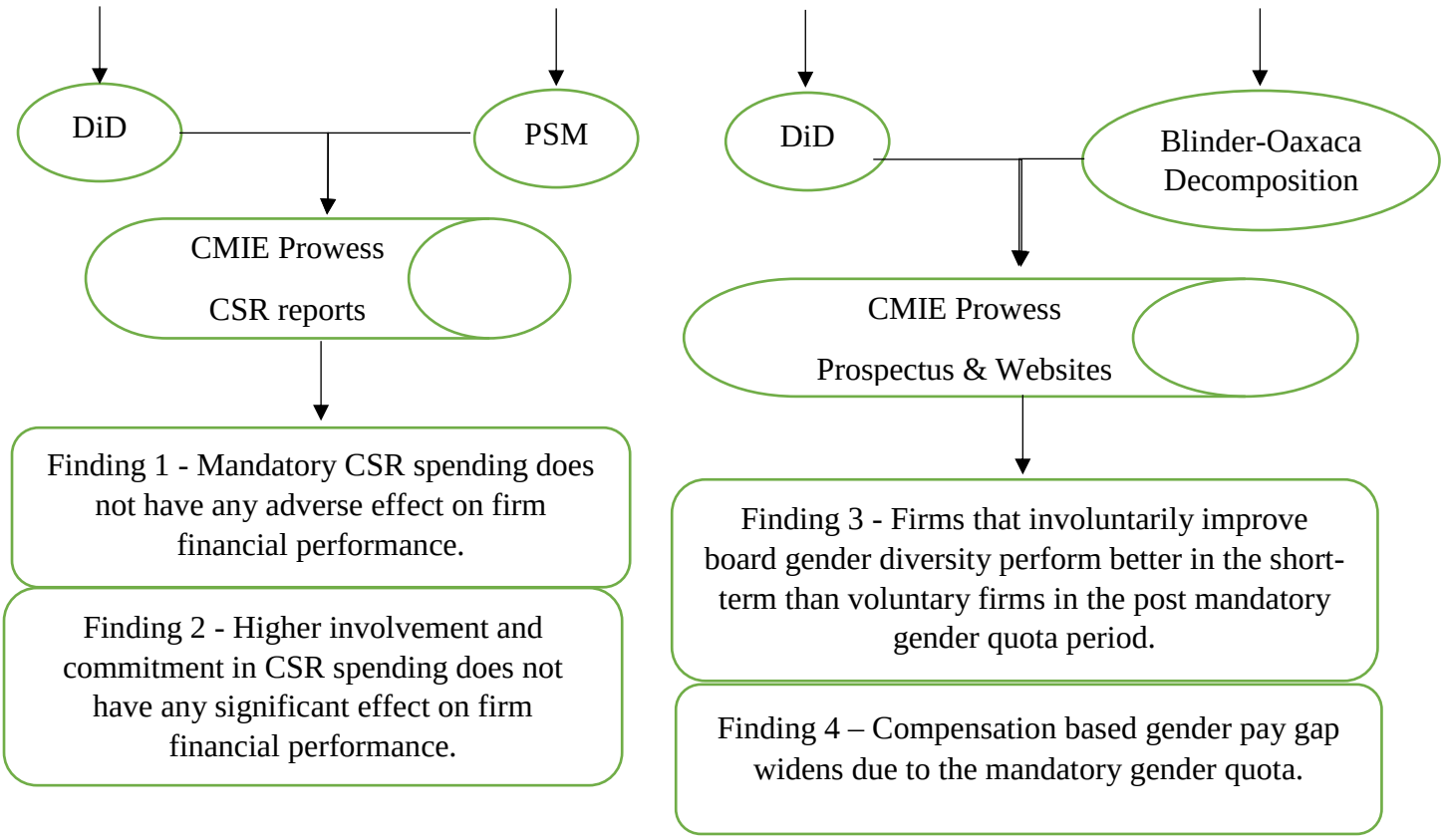
LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This chapter provides an outline of the current state of knowledge in the area of CSR and corporate board gender diversity, focusing on the recent regulatory changes happening in CG across the world. This chapter then attempts to identify the research gaps in the existing literature and arrives at the hypotheses. It is divided into two parts. The first part discusses the literature that highlights the established idea of voluntarism in CSR and the advantages and disadvantages associated with the same. It also discusses the change in the legal status of CSR, followed by the discussion of research gaps and hypotheses on CSR. The second part deals with literature on corporate board gender quotas and their impact on the representation and remuneration of women directors on corporate boards, followed by research gaps and hypotheses.

Flowchart 2.1

Position of Chapter 2 in the thesis





LITERATURE REVIEW: PART 1 – MANDATORY CSR REGULATION

2.1 Literature Review and Hypotheses Development - CSR

2.1.1 The predominance of voluntarism in CSR

CSR has been getting vast scholarly attention and heightened awareness from media, civil society, politicians, and regulators for several decades. The majority of studies focus on why organizations engage in CSR and what happens as a result (Aguinis & Glavas, 2012). They conclude that instrumental reasons such as expected financial outcomes is the primary reason for firms to engage in CSR. However, whether CSR contributes to the economic benefits of the firm remains a debatable topic. Burke and Logsdon (1996) note centrality, specificity, proactivity, voluntarism, and visibility as the five dimensions of strategic CSR while evaluating

the potential contributions of CSR activities to value creation[7]. Husted and Allen (2009) identify visibility, specificity, and voluntarism as the strategic dimensions essential to creating value through CSR. In an environment where other firms do not seek competitive advantage via CSR activities, the decision to voluntarily go beyond legally mandated social action can become a source of value creation (Husted & Allen, 2009). Recently, among the five, voluntarism is the dimension widely being questioned with the change in the legal status of CSR from a voluntary to mandatory setting. Voluntarism refers to the engage in social activities out of free will and not due to legal constraints or fiscal incentives (Husted & Allen, 2007). Hence, we focus on this dimension, as some recent regulatory amendments towards mandatory CSR raise questions about this established idea of voluntary CSR (Gatti, Vishwanath, Seele, & Cottier, 2019).

Like any other responsibility, CSR, by definition, is voluntary. It was identified as a primary dimension of CSR in the early 1970s. Manne and Wallich (1972) argue that the CSR behavior of firms must be voluntary. Steiner (1972) reiterate this view. One of the pioneer contributors of voluntarism in CSR is Carroll (1979), who identified discretionary responsibilities or voluntary acts as one of the four dimensions of CSR. Several studies have reinstated voluntarism in CSR (Dentchev, Van Balen, & Haezendonck, 2015; Kotler & Lee, 2005; McWilliams & Siegel, 2001). Hence, the generally accepted notion of CSR is that it takes place when the firm undertakes activities that promote a social agenda over and above the legal requirements (Arevalo & Aravind, 2017).

Further, voluntarism is the CSR dimension, common in almost all definitions of CSR (Dahlsrud, 2008; Gatti et al., 2019). For instance, Dahlsrud (2008) engages in a content analysis exercise to categorize and identify various dimensions of CSR definitions adopted by scholars.

[7] See Burke and Logsdon (1996) for detailed description.

The primary theme addressed by Dahlsrud (2008) is the relationship between business and society. The second aspect connotes the conservation of the natural environment, while the third dimension talks about the economic and financial aspects of business responsibilities. Fourth is the stakeholder theme, and the final aspect addressed by many definitions of CSR is the voluntary nature of CSR. This connects CSR to the activities not explicitly mentioned by the law. In Dahlsrud (2008), around 27 definitions of CSR were analyzed and all of them contain voluntariness as the major theme while none contains mandatory dimension. Moreover, it's interesting to note that the voluntariness aspect of the definition has scored more than the environmental conservation aspect which again is the major emphasis of many CSR initiatives. The Appendix 1 provides a list of CSR definitions and dimensions to illustrate the prominence of the voluntariness in CSR, compiled by Dahlsrud (2008).

Apart from definitions, the voluntary nature of CSR is emphasized in various theories on CSR. For instance, Porter and Kramer (2006) opine that the instrumental CSR theories presume that firms engage in CSR activities, essentially as a corporate strategy, to garner competitive advantage instrumentally. This understanding of CSR enables one to comprehend it as another corporate investment opportunity and thus a management instrument devoid of legal requirements. On the other hand, Scherer and Palazzo (2007) present the political approach to CSR, which identifies CSR as a corporate exercise that evolved as part of a "deliberative and democratic" dialogue amongst corporations and civic societies. From the ethical theory perspective, one understands CSR to be tied to the firms as a social responsibility which the firms are bound to accept as its "ethical obligation" over and above any other larger commitments (Garriga & Melé, 2004). Further, the voluntariness of CSR links it to the potential corporate costs, social benefits, and the negative externalities to the community and

environment that might arise due to a dearth of government regulation of corporate conduct of business (Gatti et al., 2019).

2.1.2 Voluntary CSR and strategic benefits

Firms voluntarily engage in CSR if it is strategic and adds value to them (Husted & Allen, 2007). Baron (2001) terms the use of CSR to capture value for the firm as "strategic" CSR. Strong theoretical arguments emphasize that firm financial performance can be enhanced with strategic investment in CSR activities and spending (Bhattacharyya & Rahman, 2019; Kitzmueller & Shimshack, 2012). As a result, despite CSR being a debated topic in several aspects, it is increasingly forming part of firms' strategies to attain competitive advantage and sustainable development (Gatti et al., 2019). The extant literature provides evidence for the strategic use of CSR (Deng, Kang, & Low, 2013) to attract prospective employees (Greening & Turban, 2000; Jones, Willness, & Madey, 2014), to address the varying demands of stakeholders (Waddock, Bodwell, & Graves, 2002), to ameliorate employee engagement and eliminate unfavorable workplace behavior (Flammer & Luo, 2017), to reduce the cost of capital (El Ghoul, Guedhami, Kwok, & Mishra, 2011; Galbreath & Shum, 2012), and for Mergers & Acquisitions (M & A) success (Bereskin, Byun, Officer, & Oh, 2018). Flammer (2015b) provides evidence for the use of CSR as a competitive strategy of the firm.

Firms with CSR activities have more positive sell-side analyst recommendations (Albuquerque, Koskinen, & Zhang, 2019), higher abnormal returns (Bushee & Noe, 2000), higher long-term post-acquisition returns (Deng et al., 2013), and better returns at the time of crisis than others (Lins, Servaes, & Tamayo, 2017). Further, strategic CSR activities help firms create goodwill (Borghesi, Houston, & Naranjo, 2014; Godfrey, Merrill, & Hansen, 2009) and improve competitiveness through brand, legitimacy, and reputation (Flammer, 2015b; Peloza, 2006; Porter & Kramer, 2006). Vishwanathan, van Oosterhout, Heugens, Duran, and Van

Essen (2020) identify enhancing firm reputation, increasing stakeholder reciprocation, mitigating firm risk, and strengthening innovation capacity as the four mechanisms through which CSR affects CFP. In summary, firms improve their competitiveness and profitability by attracting more customers through their voluntary engagement in CSR activities.

2.1.3 Voluntary vs. mandatory CSR

The discussion so far focuses on the economic and other strategic benefits of CSR in an environment where CSR spending decision is voluntary to firms. In other words, in all these situations, management can decide whether or not to spend on CSR and the various decisions related to the same. CSR spending by firms in most countries is voluntary. One major critique of such voluntary exercise is that it limits and may not help reach desired sustainability goals of firms. This issue is reflected in a recent global corporate survey by Deloitte[8]. Despite being recognized as a fundamental strategic priority of modern-day business (McPherson, 2017), it appears that the perceived importance of CSR is much higher than its actual practice[9]. They found that, although managers perceive CSR as an important initiative, they significantly fall short in implementation to their perceived importance level in actual practice.

The persisting resistance and the voluntariness to undertake CSR by the corporate world suggest that CSR investment may be driven by firm strategy to create goodwill or maintain political connections rather than by their altruistic objectives[10] (Borghesi et al., 2014).

[8] https://www2.deloitte.com/content/dam/Deloitte/de/Documents/human-capital/2018-Global-Human-Capital-Trends-Citizenship-and-social-impact.pdf

[9] In spite of 77% organizations considering CSR as important, only 18% have put it as a top priority (Deloitte, 2018)

[10] As an evidence to the fact that CSR is not an altruistic decision of the firm, Deng et al. (2013) argue that many US firms have increased their CSR investment as part of their strategy and vision or as a result of pressure from activist shareholders. Further, Flammer and Luo (2017) argues that CSR is used as a strategic management tool by documenting that it is used as an effective mechanism to improve employee engagement and eliminate adverse behavior at the workplace. Flammer (2015b) provides evidence for the use of CSR as a competitive strategy. Bereskin et al. (2018) document that CSR is associated with M & A success.

Cognizant of potential sustainability concerns associated with such voluntary contributions towards CSR, in the recent past, several nations have been moving towards mandatory CSR disclosure to create more awareness among firms regarding their responsibilities towards the society (Chen, Hung, & Wang, 2018)[11]. However, CSR spending decision still remains voluntary, except in India. Given that majority of the countries have left CSR decisions as voluntary to firms, country-level broader sustainability goals will get hampered if firms consider CSR spending is not in the interest of both the primary and secondary stakeholders. In such circumstances, the gap between CSR's perceived importance and actual practice would persist and social responsibility may not get implemented to its potential, leading to global sustainability concerns.

Moreover, as long as CSR is voluntary, it is endogenous, and it is not easy to arrive at a definitive solution to the long-standing question of the effect of CSR on CFP. Extant research could not answer this question due to the limitation on identifying a counterfactual event of CSR being an involuntary decision. CSR is still a voluntary choice in almost all countries except India due to the CSR mandatory spending law. Indian experiment of mandatory CSR spending has spurred researchers to validate the claims on the financial performance effects of mandatory CSR spending. One of the primary studies investigating the impact of the mandatory CSR law is by Manchiraju and Rajgopal (2017). They find that mandatory CSR spending can have an adverse impact on the financial performance of firms. However, their analysis was mainly in anticipation of the regulatory intervention. Their classification and comparison of

[11] For instance, the Securities and Exchange Commission (SEC) of United States have started issuing rules on matters relating to social concerns such as conflict minerals, resource extraction, and gender diversity. In 2014, the European Union have come up with a directive which requires companies to disclose their non-financial and diversity information apart from the financial information. Australian companies are also required to report the information on the way in which they manage their environmental and social sustainability risks. In countries like Denmark, France, Holland, Norway, Sweden, and China, CSR reporting is mandatory even though spending on the same is voluntary.

firms are akin to “expected to be affected firms” and “expected to be unaffected firms.” One issue with this classification is that “affected firms include both voluntary and involuntary firms. Hence, the “affected sample” is not completely counterfactual. We address this issue by examining pre and post-law periods and using only counterfactual involuntary affected firms as the treatment group.

Apart from Manchiraju and Rajgopal (2017), few other studies have also attempted to exploit this event. These studies have limitations in terms of the data and methodology they employed. Most studies are carried out considering events and data before the implementation of the mandatory law (Aswani, Chidambaran, & Hasan, 2021; Dharmapala & Khanna, 2018; Mukherjee, Bird, & Duppati, 2018), and some have considered limited years in the post mandatory law period (Bhattacharyya & Rahman, 2019, 2020; Jadiyappa, Iyer, & Jyothi, 2021). Bhattacharyya and Rahman (2019) consider only the two initial years of implementing the mandatory CSR spending law and failed to differentiate the firms that voluntarily contribute to CSR from those forced to spend due to the mandatory CSR spending law. Jadiyappa et al. (2021) look only at the long-term performance effect of mandatory CSR and conducted separate multivariate analyses for voluntary and mandatory firms.

However, the answer remains inconclusive, with the majority of the studies leaning toward a negative relationship between CSR and CFP under the mandatory CSR regime (Aswani et al., 2021; Bhattacharyya & Rahman, 2019; Manchiraju & Rajgopal, 2017; Mukherjee et al., 2018). The concerns about the adverse effect of mandatory CSR spending are grounded on the shareholders’ wealth maximization view put forward by Friedman and Miles (2006). If his idea of CSR is valid and a firm does not derive any strategic benefit from CSR activities, shareholder value will be declined if regulations become stringent. The mandatory CSR spending could be an initial step in restricting and interfering with how it should be spent and the firm's overall

CSR policy. The administrative costs of undertaking CSR activities and the board's need to monitor the same add to the compliance obligations of mandatory CSR (Manchiraju & Rajgopal, 2017). Moreover, the first of its kind mandatory CSR spending provides a setting to understand the financial performance effects of CSR activities in the regulatory transition from a voluntary setting.

2.1.4 Voluntary CSR and managerial decision making

In the previous sections, the discussion was mainly at the organizational level. However, the ultimate actions on CSR decisions are made at the manager level. Hence, understanding managerial decision-making on CSR is important. The literature related to the same will be discussed in this section. CSR can be defined as the obligation of management to acknowledge and address issues of economic and legal requirements beyond the purview of the organization. However, any such intervention should be in accordance with social and environmental values. 'Management' is a consortium of people bound to devise everyday actions and decisions and implement policies and strategies. Hence, it's logical to infer that the moral standing, in terms of ethical standards, beliefs, and values in particular, of these individuals would act as important aspects in the decisions they make as management (Duarte, 2010).

Similarly, Hemingway and Maclagan (2004) note that personal values and interests work along with corporate or official objectives in driving individual managers or professionals while making decisions associated with their organizations. So, a firm's CSR activity and performance could directly stem from a few managers' personal beliefs and values. When faced with situations to act or make a better judgment using one's belief system and discretion, these values tend to find operational expression or opportunity. Hemingway and Maclagan (2004) suggest an essential idea that opportunities for positive social change occur when managers initiate or modify certain specific projects or assignments based on their managerial discretions

guided by their personal values. They believe that an organization would change by the actions of individual managers. Managers committed to their organizations would be enthusiastic and motivated and engage their best skills in order to create and bring forth "social, environmental and economic capital" (Collier & Esteban, 2007). Management executives are predominantly more driven by motives that are more intrinsic to themselves than those dictated extrinsically to them when it comes to social aspects of CSR (Graafland & Mazereeuw-Van der Duijn Schouten, 2012).

One area where there is a dearth of research in CSR literature is the optimal level of managerial involvement in CSR initiatives. It is unclear whether managers should directly engage in CSR initiatives, appoint a third party to manage them, or allocate budgeted resources to a specialist in social projects. Although CSR takes place at the organizational level, investigating individual actors' interpretations of CSR is essential as they are the ones who strategize, make decisions, and execute CSR initiatives (Aguinis & Glavas, 2012). However, there is scant knowledge of intra-organizational dynamics or the role of individuals in implementing CSR practices in their strategy and operational procedures to make CSR part of everyday managerial life (Baumann-Pauly, Wickert, Spence, & Scherer, 2013; Costas & Kärreman, 2013).

To understand the involvement of employees, both existing and prospective, in CSR activities, studies have used psychological theories of motivation, justice, social exchange, and learning (Caligiuri, Mencin, & Jiang, 2013; Lee, Song, Lee, Lee, & Bernhard, 2013; Lin, Lyau, Tsai, Chen, & Chiu, 2010; Mueller, Hattrup, Spiess, & Lin-Hi, 2012; Rupp, Shao, Thornton, & Skarlicki, 2013; Slack, Corlett, & Morris, 2015). However, managerial level analysis remains a less explored area in CSR research (Costas & Kärreman, 2013). Understanding what happens when firms attempt to implement CSR puts the CSR manager in the spotlight.

CSR managers' explicit job is to coordinate and manage the implementation of CSR-related practices. At the same time, these managers are the most important carriers of CSR-related knowledge in an organization. The majority of the firms worldwide nowadays employ one or more CSR managers or even have a separate CSR department (Strand, 2013). A recent study by Wickert and de Bakker (2015) examines the role of CSR managers as drivers of practice implementation. They presented an integrative framework that explains the dimensions underlying the role of CSR managers in CSR implementation. In other words, they identified the tactics that managers apply to move from abstract CSR objectives to measurable CSR-related outcomes. The voluntarism of CSR activities, to a large extent, relies on managers' discretion and thus, demands the involvement and commitment of the concerned managers. However, the literature has overlooked the role of CSR managers in the relationship between CSR spending and firm financial performance.

2.1.5 Hypothesis development

The extant reviewed literature does not provide conclusive evidence on the effect of CSR on CFP. With the unique setting available due to the implementation of the mandatory CSR spending law in India, we examine the impact of CSR on CFP when there is a regulatory change that makes CSR a mandatory spending obligation of firms from a voluntary act. The literature largely acknowledges the positive economic and strategic effects of voluntary CSR. On the contrary, when CSR is enforced on firms through a regulatory change, it may lead to adverse financial performance effects. Several scholars argue that corporations consider CSR as strategic for the business as it contributes to financial performance (Barnett, 2007; Orlitzky, Schmidt, & Rynes, 2003) and market value (Mackey, Mackey, & Barney, 2007). For firms, it is wiser to undertake CSR activities strategically. Studies suggest the use of the same

framework for both core business decisions and CSR to ensure competitive advantage to the firm from CSR engagements (Maxfield, 2008).

Decades of research on the CSR-CFP relationship could not provide a definitive answer to the impact of CSR spending on CFP due to the challenges posed by endogeneity. The commonly used methods to address this challenge include using the instrumental variable approach (Garcia-Castro et al., 2010; Harjoto & Jo, 2011) and matching methods (Shen & Chang, 2009). However, the literature cautions against the accuracy of the results using the instrumental variable approach as there is no statistical way to ensure the validity of an instrument, and also instrumental variables are associated with low levels of statistical power (Deng et al., 2013; Roberts & Whited, 2013; Semadeni, Withers, & Trevis Certo, 2014). Zolotoy, O'Sullivan, and Chen (2019) point out the lack of a good instrument in the existing CSR-firm value literature.

Recent literature on CSR-CFP utilized quasi-natural experiments to overcome the challenge posed by endogeneity (Flammer & Bansal, 2017). For instance, Flammer (2015a) conducts a quasi- natural experiment study by employing RDD to study the effect of CSR on performance. She finds a concave relationship between CSR and CFP. However, as discussed earlier, Flammer (2015a) does not entirely address endogeneity as her sample firms' CSR spending decision remains voluntary, and thus firm's decision is endogenous in her sample. This study extends the literature by not only addressing the potential endogeneity problem with a cleaner counterfactual sample, but also, brings richer data that captures nature, method and intent of CSR spending by firms.

The relationship under the mandatory context will be different from a voluntary setting where the CSR activities are undertaken for strategic benefits, and the management has the discretion on how much to spend. Hence, the introduction of the mandatory CSR spending law in India, gives us an ideal opportunity to assess the incremental impact on firm profits if firms are being

forced to spend on CSR, by taking out the CSR spending decision from the hands of management. We argue that the management's flexibility in deciding the optimal amount to spend on CSR is not possible under a mandatory setting leading to reduction in firm value. However, the literature suggests that involuntary constraints can incentivize firms to innovate, especially for social and environmental problems (Managi, Opaluch, Jin, & Grigalunas, 2005; Porter & Van der Linde, 1995). Thus, there are reasons to believe that voluntarism and constrained action may stimulate value creation.

In theory, the optimum amount is spent by firms voluntarily on CSR activities to improve firm value (Bhattacharyya & Rahman, 2020). According to the stakeholder value maximization view, strategic CSR activities and CSR spending can improve firm financial performance. Thus, building on the stakeholder value maximization view and Burke and Logsdon (1996) framework, we argue that compared to mandatory CSR spending, voluntary CSR spending leads to better firm financial performance as it is strategic. In other words, we examine the variation in the financial performance effects of CSR spending between voluntary and involuntary firms. In addition, we contribute by examining the effect of CSR spending on firm financial performance by considering pre and post-mandatory CSR law periods. More specifically, we set up a research design with clear counterfactual involuntary CSR firms affected by the law.

Thus, we put forward the following hypothesis:

H1: Voluntary CSR spending improves firm financial performance as it is strategic.

Given the inherent nature of CSR is voluntarism, managers have a crucial role in its implementation, and thus, the relationship between CSR and CFP largely depends on the involvement and commitment of managers in the CSR implementation. Examining this is essential as there might be firms involving more or committing more towards CSR among

voluntary and involuntary firms. In a recent working paper, Rajgopal and Tantri (2018) compare pre and post-mandatory CSR law from a managerial spending perspective. They find a significant decline in the CSR spending of firms to the 2 percent level prescribed by the government by the firms that voluntarily engaged in CSR before the mandate.

The CSR spending marginally increased for firms that did not actively engage in CSR before the mandate. They interpret this as a reduction in intrinsic managerial motivation. Unlike Rajgopal and Tantri (2018), who deduce reduction of spending by voluntary CSR firms as a reduction of intrinsic managerial motivation, we look at the actual project-wise CSR portfolio allocation data and create measures of managerial involvement and commitment for assessing whether forcing CSR reduces intrinsic managerial motivation and thereby has any adverse impact on the CSR-CFP relationship.

We explore the intra-organizational dynamics in the context of CSR implementation by focusing on the question: How do CSR managers' discretion improve the CSR-CFP relationship? We contribute to the literature by examining the moderating role of manager involvement and commitment in the relationship between CSR and CFP within voluntary and involuntary firms. Thus, we contribute to the CSR literature by adding the individual level boundary conditions that strengthen the relationship between CSR spending and firm value. In other words, we examine the factors which affect the relationship between CSR and CFP, namely, manager involvement and commitment, i.e., how these factors change the relationship between CSR and CFP within voluntary and involuntary firms.

Hence, we put forward the following hypothesis and check this separately among these two groups of firms:

H2: Higher managerial involvement and commitment to CSR improve firm financial performance.

LITERATURE REVIEW: PART 2 – MANDATORY BOARD GENDER QUOTA REGULATION LAW

2.2 Literature Review and Hypotheses Development – Board Gender Diversity

2.2.1 The corporate board gender quotas

Gender disparity in corporate boards is a global phenomenon. Despite a noticeable reduction in the gender gap in education and labor force participation, the top echelons in the corporate world still lack female representation. The widening gender gap in the top echelons of the corporate world is getting increased attention from policymakers (Adams & Ferreira, 2009). Norway took the lead in the gender quota revolution in the corporate world, initially with a voluntary regulation in 2003, later switched to a mandatory one with increased sanctions for the non-compliant firms. Following Norway, several other nations have come up with similar laws. Initially, the trend was among the European and other developed countries, followed by a couple of developing countries characterized by higher gender segregation in the labor market. As of November 2020, around 24 countries have introduced a mandatory or voluntary gender quota law (MSCI, 2020). As seen in Table 1.3, unlike most developed countries, which require a female representation ranging from 20 to 40 percent, the developing countries only mandate the appointment of at least one female director. This study focuses on India, a developing market that reduced the gender gap in education to a large extent but still struggles to address the gender gap in the corporate boards[12].

2.2.2 Representation-based gender gap

Gender diversity has received serious attention to legislation changes in some countries. In response to the slow progress in female representation on corporate boards, several European

[12] Refer Appendix 2 for more details.

Union countries have imposed gender quotas on firms to augment corporate boards' efficiency by incorporating diverse talent (Adams & Ferreira, 2009). This move has influenced many other nations across the world. Despite a considerable reduction in the gender gap in many countries in the recent past, gender inequality remains a major concern, especially in developing countries (Cuberes & Teignier, 2016). Empirical studies document the persistence of gender differences worldwide, despite gender equality becoming a priority in political agendas (Peinado & Serrano, 2018). However, there is no consensus on the effect of gender equality on economic growth.

Moreover, gender gaps in education have reduced and reversed in recent years in many developing countries (Heath & Jayachandran, 2016) and have been accompanied by much smaller improvements in gender gaps in earnings and political representation. Studies demonstrate that gender inequality in education leads to higher economic growth (Barro & Lee, 1994; Barro & Sala-i-Martin, 2004; Lagerlöf, 2003). However, empirical evidence shows that gender gaps in education reduce economic growth (Galor & Weil, 1996; Klasen, 2002; Knowles, Lorgelly, & Owen, 2002). Besides, Galor and Weil (1996) posit that countries with a high gender gap in earnings suffer low economic growth.

Apart from the legal push, gender diversity has become a moral imperative and value for organizational growth (Ely & Thomas, 2001; Mayer, McCluney, Sonday, & Cameron, 2015). Besides, there is social pressure dimension (Dobbin, Kim, & Kalev, 2011). This is evident in many large firms. For instance, Standard and Poor's (S&P) 100 organizations consider gender diversity as part of their goals (Mayer et al., 2015), and diversity training is offered by 95% of Fortune 1,000 organizations (Chavez & Weisinger, 2008). Despite all these internal and external pressures, females are still underrepresented in corporate executive roles and governance roles on the board of directors.

Male domination in the labor market can create artificial entry barriers for females. Research suggests that females are perceived as less competent than their male counterparts (Biernat & Kobrynowicz, 1997; Eagly & Karau, 2002; Foschi, 2000; Heilman, 1983, 2012; Heilman, Block, & Martell, 1995; Schein, 2001; Swim & Sanna, 1996) and experience more work-family conflict (Hoobler, Wayne, & Lemmon, 2009). Hence, these biases can create artificial barriers to female representation on corporate boards. Less than 20% representation in the top of the ladder corporate positions calls for stronger legislation and shareholder activism. Cognizant of these discriminatory practices, several governments are pushing for mandatory gender quota laws for increasing female representation on corporate boards.

2.2.3 Compensation-based gender gap

M. E. Carter, Franco, and Gine (2017) elaborate that economic theories such as taste-based and statistical discriminations explain the gender compensation gap. In the former, the majority group members (males) are prejudiced against the minority group members (females). Whereas the general perception and biases among the majority group about the skills and productivity of the minority negatively affect the wage gap. Moreover, it is further exacerbated by the majority's sheer relative power in numbers.

Schneider, Iseke, and Pull (2019) examine two perspectives of the potential gender compensation gap on the executive board level: a market-based view and a power-and-discrimination-based view. Latter is akin to taste-based discrimination, as given in M. E. Carter et al. (2017). From a compensation and discrimination perspective, the executive-level gender compensation gap is explained by the same factors contributing to career and promotion decisions and the glass ceiling effect (Oakley, 2000). Specifically, there may be two reasons for the discrimination due to stereotyping of female executives. First, the characteristics and attitudes of successful executives at the higher level are generally attributed to males than

females. Second, females promoted to the higher level may be penalized as they tend to depart from the generally accepted gender role expectations. As the board and pay commissions are dominated by males, females have lesser bargaining power in the compensation setting process (Schneider et al., 2019).

Although recent studies focus on the impact of board gender quotas on board characteristics and firm financial performance (Ahern & Dittmar, 2012; Bøhren & Staubo, 2016; Matsa & Miller, 2013), except Rebérioux and Roudaut (2019) and Bertrand et al. (2019), there is no evidence so far on the impact of gender quotas on the *CGP*. Rebérioux and Roudaut (2019) examine France gender quota law to understand within board appointment of new women directors in terms of the roles they are assigned and the corresponding compensation. They find that newcomer women directors are less likely to hold critical positions than the incumbent and new men directors, resulting in the widening gender-based compensation gap within the firm. On the contrary, Bertrand et al. (2019) found a substantial reduction in the earning-based gender gap due to board gender quota laws in Norway. These conflicting pieces of evidence provide us with an opportunity to revisit this question in another setting. Further, unlike those studies, we examine the effect on different components of compensation.

Research has shown that, compared to males, females earn 80% or less across the globe (Altonji & Blank, 1999; Arulampalam, Booth, & Bryan, 2007; Blau & Kahn, 2006, 2007; Grove, Hussey, & Jetter, 2011; Kulich, Trojanowski, Ryan, Alexander Haslam, & Renneboog, 2011). Females have less human capital (Blau & Kahn, 2006). Even after controlling for several plausible reasons for gender compensation gap differences, the gender gap cannot be fully explained (Blau & Kahn, 2006, 2007). Thus, all other things being equal, females earn less than males.

Given recent market forces, on the corporate boards, females should get a pay premium over males (Leslie, Manchester, & Dahm, 2017). In corporate boards, the extant literature provides mixed evidence on the effect of females' representation in senior management positions on the gender compensation gap. Few studies provide evidence that the higher female representation in senior management or corporate board narrows the gender compensation gap (Terjesen & Singh, 2008). According to Jordan, Clark, and Waldron (2007), no gender compensation gap exists for female directors who have reached a seat on the board, as they are paid virtually the same as their male counterparts. However, several recent studies find that females earn less than males on corporate boards (Kulich, Anisman-Razin, & Saguy, 2015; Pucheta-Martinez & Bel-Oms, 2015; Yanadori, Gould, & Kulik, 2018). In summary, *CGP* is a global phenomenon, and market forces and behavioral biases are found to be the reasons in the literature.

2.2.4 Demand vs. supply dynamics of female labor force participation and compensation

The implementation of the mandatory gender quota law leads to changes in the gender composition on corporate boards. This creates changes in the demand and supply dynamics of female directors. Literature provides limited evidence on the effect of change in the gender composition of the labor force on the structure of male and female wages (Acemoglu, Autor, & Lyle, 2004). Economic theory suggests that, as long as males and females are imperfect substitutes in production, increases in female labor supply will (i) create downward pressure on the wages of both males and females and (ii) create greater downward pressure on the wages of females, and hence widen the gender wage gap. The size of these effects will depend upon the elasticity of substitution between male and female labor.

Acemoglu et al. (2004) investigate the effect of female labor supply on the wage structure by exploiting the military mobilization for World War II and find that the induced shifts in female labor supply lowered female and male wages. Bhalotra and Fernandez Sierra (2018) examine

the influence of increased labor force participation of females on the distribution of the gender pay gap. They provide evidence that male and female labor are closer substitutes in high-paying abstract task-intensive occupations than in lower-paying manual and routine task-intensive occupations.

In a study on the feminization of the immigration labor force, Edo and Toubal (2017) show that male and female workers of similar education, experience, and occupation are imperfect substitutes. They find that the increase in the relative supply of females due to immigration contributes to the widening gender wage gap as it negatively affects the wages of female native workers. Topel (1997) suggests that immigration and increased labor force participation of females aggravate wage inequality. The effect of the former is minor, whereas that of the latter is inconclusive as the necessary patterns of substitution are doubtful.

Topel (1994) conclude that the increase in female labor supply in the US in the 1970s and 1980s aggravated inequality by reducing the wages of low-skilled male workers. Challenging this result, Juhn and Kim (1999) argue that college-educated females are close substitutes for college-educated men, so that their entry into the labor market may have tempered the growth in male wage inequality in the 1980s.

The complexity of the phenomenon is evident from the relative scarcity of convincing studies on this topic: increased labor participation of females is driven by both supply and demand factors. Females participate in the labor force for several supply-side reasons, including changes in tastes, gender roles, and technology of household production. But females also participate more because there is greater demand for their labor services. To advance our understanding of how rising female labor force participation affects male and female earnings levels, we require a source of exogenous variation in female labor supply. Interestingly, the

board gender quota enacted in several countries provides a proper setting to test how the increased supply and demand of female directors influence the gender pay gap in that field.

In this thesis, we study an exogenous increase in the female representation in the upper echelons of corporate hierarchy following the implementation of the mandatory gender quota in corporate boards in India and the resulting effect on the gender pay gap. The literature on the effect of increased female representation on corporate boards by the implementation of gender quotas on the gender pay gap is limited. The paper by Rebérioux and Roudaut (2019) is most closely related to our work. They examine the positions and compensation of rookie female directors who entered the French corporate boards following the implementation of the gender quota. They show that conditional on their individual characteristics and firm effects, rookie female directors have had limited access to the key positions within boards and have suffered from a significant compensation gap.

2.2.5 Hypothesis development

The extant reviewed literature does not provide a clear distinction between *RGP* and *CGP*. We posit, from an economic perspective, these concepts are different from each other. The desirability of higher gender diversity, which can reduce *RGP*, need not necessarily reduce *CGP*. On the contrary, it may widen the compensation-based gender gap, especially when gender diversity is pushed through legal enforcement.

From a market perspective, compensation setting for the board of directors relies on supply and demand forces. The individual differences between males and females in career decisions and the resulting human capital differences are only reflected in their compensation differences (Murphy & Zabojnik, 2004). Hence, it is inappropriate to presume that females will be paid less than comparable men. Females can demand pay premium in those high-profile roles where they have a clear advantage (Leslie et al., 2017). Thus, the demand-side factors indicate that

the representation-based gender gap and compensation-based gender gap can go hand in hand. In other words, from a demand-side perspective, an increase in female representation on the corporate boards can lead to a reduction of both representation and compensation gender gaps.

There is a strong demand for female directors in the current times of public debate, and several protests and initiatives as firms are required to appoint female directors. Given that there is a shortage of supply of qualified female directors, the demand may exceed the supply (Helfat, Harris, & Wolfson, 2006). Due to pro-active firm initiatives and normative pressures, female representation on corporate boards has increased (Dang, Nguyen, & Vo, 2014). The above predictions may differ in a forced gender diversity setting, leading to either unmet demand or excess supply issues.

Keeping this discussion in perspective, we consider the following hypothesis:

H3: Mandatory gender quota regulation widens the compensation-based gender gap.

When firms are forced to appoint female directors, there are two possibilities where compensation and representation-based views can diverge. First, in the case of supply overshoot due to a legal norm, female directors' overall bargaining power reduces. Hence, due to the reduction in new female directors' compensation, a decrease in *RGP* can still widen the *CGP* in the post-regulation period. In the case of supply shortage, a reduction in *RGP* can happen only with an increase in non-rookie female directors' directorships. Due to higher demand, the bargaining power of non-rookie directors can increase. However, such an expected increase will be short-lived as it is driven by a short-term supply shortage and no change in the female directors' talent pool. Hence, if the supply shortage persists, in the long run, *CGP* may not reduce. Even if the supply shortage subsides, an increase in directorships of NRFDs can pose an entry barrier for RFDs. The externality associated with NRFDs' increased network

strength can reduce the RFDs' bargaining power. In summary, in both cases, *RGP* and *CGP* can diverge with gender diversity if forced on firms.

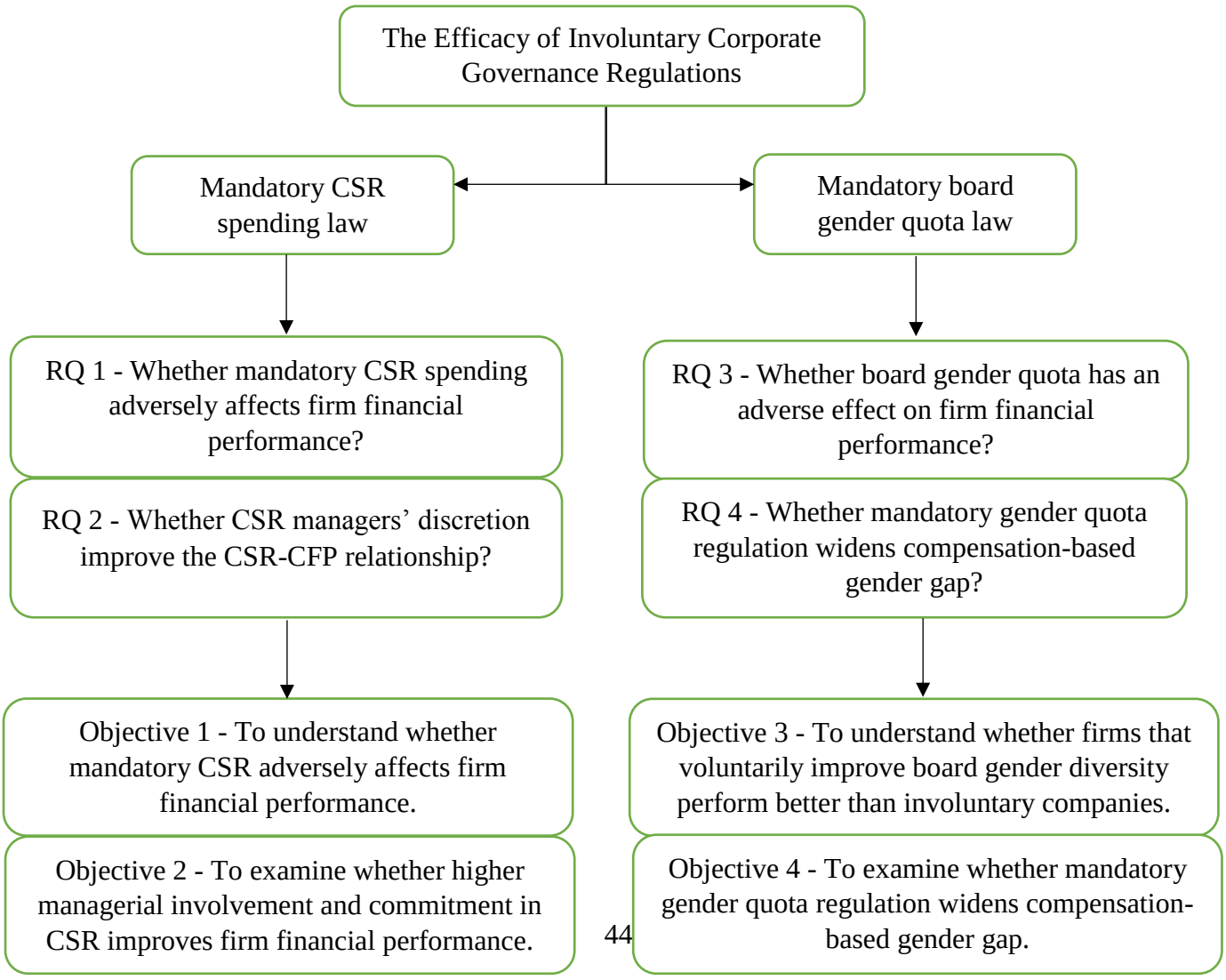
CHAPTER 3

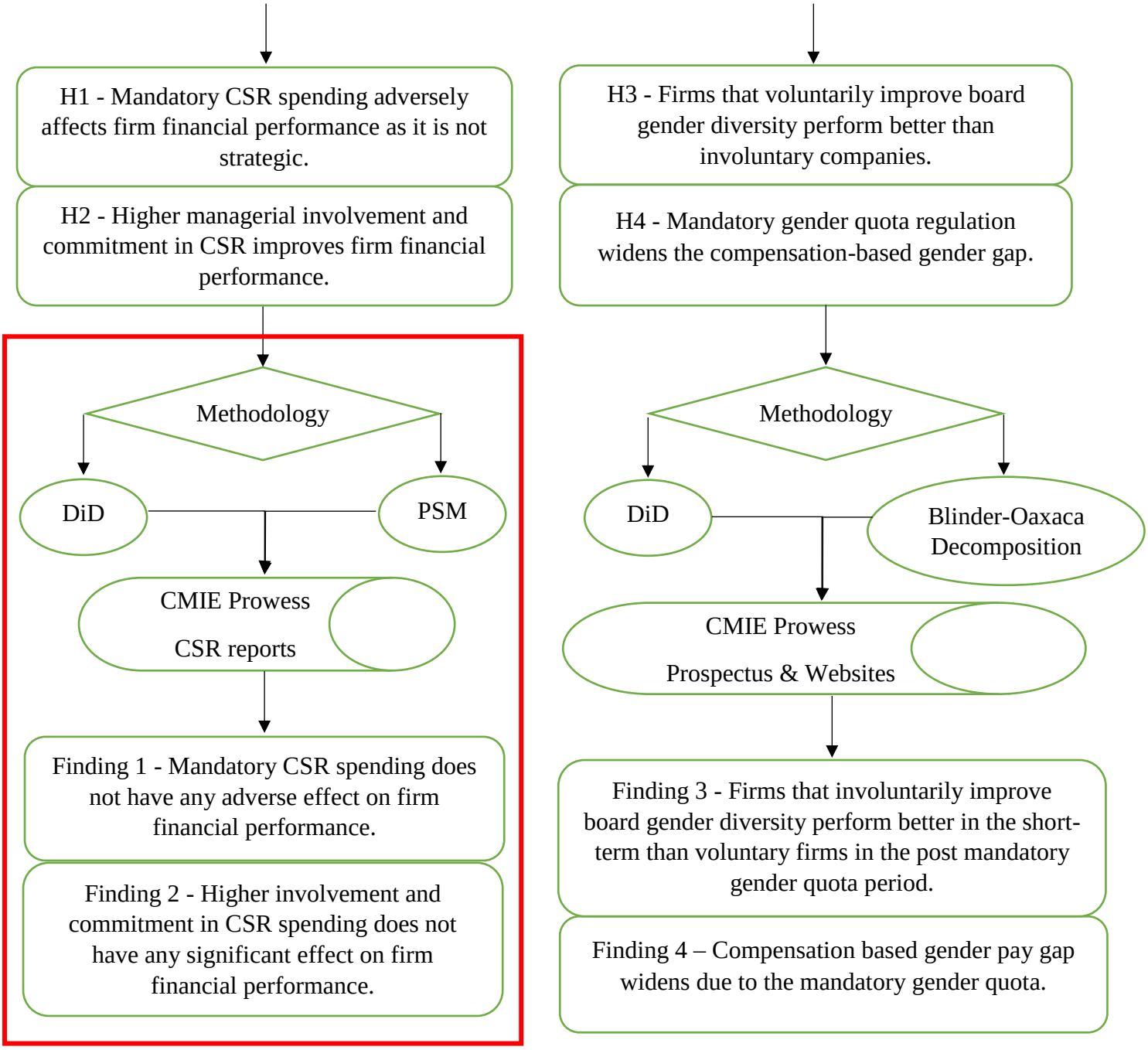
Study 1 - Should We Regulate Corporate Social Responsibility Spending?

This chapter constitutes a detailed description of the setting, data, and methodology adopted to study the efficacy of mandatory CSR spending law. It describes the research methodology and variables used in the study. It also briefly summarizes the CSR reports of firms. The chapter also discusses the results of analyses of the data to address the research questions in Chapter 2 and a detailed interpretation of their results.

Flowchart 3.1

Position of Chapter 3 in the thesis




H1 - Mandatory CSR spending adversely affects firm financial performance as it is not strategic.
H2 - Higher managerial involvement and commitment in CSR improves firm financial performance.
Methodology
DiD
PSM
CMIE Prowess
CSR reports
Finding 1 - Mandatory CSR spending does not have any adverse effect on firm financial performance.
Finding 2 - Higher involvement and commitment in CSR spending does not have any significant effect on firm financial performance.
H3 - Firms that voluntarily improve board gender diversity perform better than involuntary companies.
H4 - Mandatory gender quota regulation widens the compensation-based gender gap.
Methodology
DiD
Blinder-Oaxaca Decomposition
CMIE Prowess
Prospectus & Websites
Finding 3 - Firms that involuntarily improve board gender diversity perform better in the short-term than voluntary firms in the post mandatory gender quota period.
Finding 4 – Compensation based gender pay gap widens due to the mandatory gender quota.

3. Data & methodology

3.1 Setting - Background of the mandatory CSR regulation

Historically, many large listed companies have proactively reported on global sustainability frameworks. However, in India, sustainability reporting is still in its infancy. It was only in 2009, the Ministry of Corporate Affairs (MCA) issued the 'Voluntary Guidelines on Corporate Social Responsibility' to mainstream the concept of business responsibility[13], marking the regulatory nudge to businesses to be responsible13. In 2011, India endorsed the United Nations Guiding Principles on Business and Human Rights (UNGPs) adopted by the United Nations Human Rights Council (UNHRC). In the same year, MCA issued the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' (NVGs) and a Business Responsibility Reporting framework. The NVGs are an outcome of extensive consultations with businesses, academia, civil society organizations, and the government.

However, it is only in 2012, businesses started facing a regulatory push to provide information on responsibility and sustainability with Securities and Exchange Board of India (SEBI) making it mandatory for the top 100 listed companies by market capitalization to submit Business Responsibility Reports (SEBI-BRRs/ BRR) through the Listing Agreement[14]. The objective of these disclosures were to encourage businesses to go beyond regulatory compliance and report their impact on social and environmental causes by improving their engagement with stakeholders. Later, the Indian Government included CSR spending requirements as part of the Companies Act, 2013, which replaced the 57-year-old Companies Act 1956. The MCA, Government of India, for the first time in the world, mandated compulsory CSR through Section 135 of the Act, which requires firms that report above Indian

[13] https://www.mca.gov.in/Ministry/pdf/BRR_11082020.pdf
[14] https://www.sebi.gov.in/sebi_data/attachdocs/1344915990072.pdf

Rupees (INR) 50 million net profit or INR 5,000 million net worth or INR 10,000 million turnover to spend at least 2 percent of their average net profits of the last three years on CSR. Though the Act does not define what constitutes CSR activities, it provides an exhaustive list of activities under the purview of CSR activities. Unlike the general idea of CSR widely accepted across the globe, the Act restricts CSR spending because it does not recognize employee welfare projects as CSR activities. If a company fails to comply with Section 135, they have to pay the penalty ranging from INR 50,000 to 25 lakhs. The concerned officers shall be punishable with imprisonment up to three years, a fine ranging from fifty thousand to five lakh rupees, or both (Companies (Amendment) Bill, 2019). Hence, CSR spending has become very strict and serious in India, unlike in any other country.

The Act provides a solution to a long-standing question that troubled both the academicians and practitioners by providing a setting with exogenous variation in CSR spending, which reduces the endogeneity issues and selection bias suffered by similar studies (Manchiraju & Rajgopal, 2017). Thus, the enactment of the Act provides a perfect setting to identify the counterfactual event for the rest of the world: "what if CSR is not an endogenous firm decision, and it is exogenous?". Likewise, the Act provides a much-needed definition of what constitutes CSR. Extant literature does not have a clear definition and the boundaries of CSR activities. Hence, the Indian experiment offers a better measure of CSR activities common to all firms.

3.2 Data

We use Prowess, a database maintained by the Centre for Monitoring Indian Economy (CMIE), to obtain all firm-level financial data. Following Chih, Shen, and Kang (2008) and Shen and Chang (2009), financial firms are excluded from the sample. We consider only firms subject to the law and divide them into two groups to assess the effect of mandatory CSR law. The first group consists of "Voluntary Affected" (VA) firms spending on CSR before the law and

required to comply with the mandatory CSR law. The second group comprises "Involuntary Affected" (IVA) firms affected by the law, however, they started CSR spending only after the mandatory law. IVA provides a counterfactual effect, as both the VA and the IVA firms fulfill the same criteria. However, unlike VA firms, all else equal, any significant difference in the performance of the IVA firms can be attributed to the law. Thus, we capture the law effect by considering VA and IVA as control and treatment groups, respectively. Therefore, our sample consists of 9,236 firm-year observations for six years from 2012 to 2017, out of which 1,850 are VA firms and 7,386 are IVA firms. Our sample period includes three years before and three years after the introduction of the law[15].

3.3 Variables

3.3.1 Dependent variables

We use Return on Assets (*ROA*), Return on Capital Employed (*ROCE*), Return on Net Worth (*RONW*), and Market to Book Ratio (*MBR*) as dependent variables. The meta-analysis by Margolis and Walsh (2001) finds that *ROA*, Return on Equity (*ROE* or *RONW*), and Tobin's Q are the commonly used measures of financial performance. In line with the existing studies, we use *MBR* as the proxy for Tobin's Q (Garcia-Castro et al., 2010; Wiggins & Ruefli, 2002).

3.3.2 Independent variables

Unlike the majority of the studies that have used indirect measures of CSR spending, like the CSR ratings obtained from the KLD database (Flammer, 2013; Servaes & Tamayo, 2013; Waddock & Graves, 1997; Zhao & Murrell, 2016) or social responsibility ratings from Sustainalytics Responsible Investment Services (Surroca, Tribó, & Waddock, 2010) or CSR

[15] We also estimated the models with one year and two years windows of pre and post window period, the results qualitatively remain the same.

participation data from Socrates dataset (Godfrey et al., 2009), we use the natural logarithm of the total amount spent on CSR activities, *Log CSR*, as our primary explanatory variable. We also include two dummy variables as our explanatory variables: *Timedummy* and *Treatdummy*. These variables assess the impact of the law on the CSR and firm performance relationship. *Timedummy* is a dummy variable that takes value 1 in the post-regulation period and 0 otherwise. *Treatdummy* is a dummy variable that takes the value 1 when the firm is IVA and 0 otherwise.

3.3.3 Moderating variables

To estimate the effect of managerial involvement and commitment in CSR on CFP, we used two dummy variables, namely, *Direct dummy* and *Exceed*. To indicate whether the firm undertakes CSR activities directly or through implementing agencies, we use the *Direct dummy*, which takes the value 1 if the firm implements the project directly and 0 otherwise. We employ a dummy variable, *Exceed*, to indicate whether the firm exceeds its budgeted CSR amount or not.

3.3.4 Control variables

We employ control variables in accordance with prior studies. We control for firm size and risk (Surroca et al., 2010; Waddock & Graves, 1997), strategy variables (Servaes & Tamayo, 2013), and leverage (Surroca et al., 2010). The commonly used measures to control size are the number of employees, total sales, or total assets. In line with the CSR literature, we use *Logta* (natural logarithm of total assets) in the model (Flammer, 2013; Servaes & Tamayo, 2013; Waddock & Graves, 1997; Zhao & Murrell, 2016). Next, we control firm risk using *Beta* (Surroca et al., 2010). We also include *AI* (Advertising Intensity - Advertisement Expenses/Sales) and *RDI* (R & D Intensity - R & D Expenses/Sales) as control variables (Waddock & Graves, 1997; Zhao & Murrell, 2016). Further, to control a firm's leverage, we

include *DER* (Debt Equity Ratio) (Surroca et al., 2010). In cases where the dependent variable is either *ROA, ROCE,* or *RONW*, we also include *MBR* as a control variable (Flammer, 2013; Godfrey et al., 2009).

3.4 CSR reports data

The Companies Act, 2013 has mandated that companies satisfying certain criteria to report the details of their CSR projects in the Directors' Report and on the company's website in the prescribed format (PwC, 2013). Our sample consists of 1,261 unique firms affected by the mandatory CSR law. We were able to find 2,433 firm-year CSR reports for these mandatory CSR spending firms between the years 2015 to 2017.

We hand collect data on CSR activities implemented in a given year by the firm from their CSR reports[16]. These reports provide complete information on the various CSR projects undertaken by a given firm, the sector to which it belongs, the location of the project, the amount budgeted, the amount spent, and cumulative expenditure up to the reporting period, and whether the company directly undertakes the project or through some implementing agency.

We use keywords from Schedule VII of the Companies Act, 2013, which specifies the indicative list of activities a firm can undertake under CSR. We identify twelve different sectors in line with the items mentioned in Schedule VII namely, Poverty, Education, Gender Equality, Maternal Health, Health, Environment, Vocational Skill Development, Social Business Projects, Contribution to Government Funds, Other Projects, Contribution to Foundation, and Rural Development Projects.

[16] Appendix 3 provides a sample CSR report of D B Corp Ltd. for the year 2017

3.5 Difference-in-Differences (DiD) estimation

We exploit the exogenous variation created by the mandatory CSR law by employing a DiD estimation to examine whether involuntary CSR spending has any adverse effect on firm performance. It aims at understanding the incremental impact of the law on IVA firms compared to the VA firms.

3.6 Empirical results

3.6.1 Univariate analysis

Table 3.1

Descriptive statistics

VARIABLES	**Voluntary Affected (VA) firms**		**Involuntary Affected (IVA) firms**		**Total Affected firms**	
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**
CSR Variable:						
Total CSR	93.699	369.928	45.939	299.164	62.636	326.405
Financial Performance Variables:						
ROA	3.721	10.756	4.483	46.153	4.330	41.544
ROCE	5.112	30.050	6.918	54.757	6.557	50.786
RONW	-1.242	223.440	10.936	61.806	8.544	113.563
MBR	2.654	16.603	2.639	4.643	2.641	8.449
Control Variables						
Logta	8.476	2.443	8.490	1.763	8.487	1.919
Beta	0.975	0.452	1.026	0.430	1.016	0.435
AI	0.029	0.389	0.032	0.673	0.031	0.622
RDI	0.013	0.030	0.010	0.027	0.011	0.027
DER	1.296	3.899	1.028	2.993	1.080	3.192
Observations	1,850		7,386		9,236	

Notes: This table reports descriptive statistics of the variables used in the study. The data covers a period of six years, from 2012 to 2017.

Table 3.1 reports descriptive statistics for firm-level data of the total affected sample divided into VA and IVA firms. The table gives an overview of the firm's CSR spending, financial performance, and firm characteristics across the two groups. Within affected firms, on average,

VA firms spend more (INR 93.699 million) on CSR compared to IVA firms (INR 45.939 million). However, it is evident from the values of standard deviation that there is a considerable variation in their CSR spending.

In terms of performance measures, the accounting performance of IVA firms (*ROA* = 4.483; *ROCE* = 6.918) is slightly higher than VA firms (*ROA* = 3.721; *ROCE* = 5.112). However, the standard deviation is much higher for the former. Likewise, the market performance of IVA firms (*MBR* = 2.639) is marginally higher than that of VA firms (*MBR* = 2.654). Unlike accounting performance measures, the standard deviation for VA firms (SD = 16.603) is much higher than that of IVA firms (SD = 4.643). It also shows that VA and IVA firms are similar in size, and the latter is riskier (*Beta* = 1.026) than the former (*Beta* = 0.975). Given that there is a difference in the performance and CSR spending of VA and IVA firms, we report test statistics for the significance of the differences in Table 3.2.

Table 3.2

Mean difference tests

VARIABLES	**Voluntary Affected (VA) firms**	**Involuntary Affected (IVA) firms**	**Mean Difference**
Total CSR	93.699	45.939	-47.760***
			(-4.173)
ROA	3.721	4.483	0.762
			(1.279)
ROCE	5.112	6.918	1.806°
			(1.897)
RONW	-1.242	10.936	12.179**
			(2.261)
MBR	2.654	2.639	-0.015
			(-0.035)
Logta	8.476	8.490	0.013
			(0.217)
Beta	0.975	1.026	0.051***
			(4.016)
AI	0.029	0.032	0.004
			(0.231)

RDI	0.013	0.010	-0.003** (-2.467)
DER	1.296	1.028	-0.268** (-2.690)
Observations		9,236	

Notes: This shows whether the law significantly affects voluntary and involuntary affected (VA and VUA) firms. The data covers a period of six years, from 2012 to 2017. *t* values are given in parentheses. °, *, **, and *** indicate significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

Table 3.2 aims to find whether the differences between VA and IVA firms are statistically significant at the mean level. As reported in Table 3.2, the results show a substantial difference in the CSR amount spent between the two groups. The table provides preliminary insights into whether forcing the firms to spend on CSR adversely affects financial performance. The table shows no significant difference in the accounting performance of VA firms and IVA firms as measured by *ROA* and *MBR*. In contrast, the *ROCE* of IVA firms is marginally higher than VA firms. Likewise, the *RONW* of IVA firms is significantly higher than that of VA firms. The results also show that IVA firms are riskier and have lower leverage than VA firms.

3.6.2 Difference-in-Differences estimation

To probe into the effect of mandatory CSR spending on firm financial performance and establish a causal link between CSR and CFP, we conduct a DiD estimation described in Section 3.5. For this purpose, we use the following DiD specification with firm fixed effects:

$$CFP_{it} = \alpha + \beta_0 Timedummy_{it} + \beta_1 Treatdummy\ X\ Time_{it} + \beta_2 X_{it} + \varepsilon_{it} \qquad (1)$$

Where CFP_{it} is the financial performance of firm i in the year t, defined as *ROA*, *ROCE*, *RONW*, or *MBR*. *Timedummy* is a dummy variable that takes value 1 in the post-regulation period & 0 otherwise. *Treatdummy* is a dummy variable that takes the value 1 when the firm is IVA & 0 otherwise. Since we include firm fixed-effects, *Treatdummy* is dropped as it is time-invariant (Chintrakarn, Jiraporn, Tong, Jiraporn, & Proctor, 2020).

Table 3.3

Difference-in-Differences (DiD) estimation

VARIABLES	ROA	ROCE	RONW	MBR
Timedummy	-1.307***	-2.600***	-3.481***	1.514***
	(-3.548)	(-3.651)	(-3.331)	(6.213)
Treat X Time	0.038	0.424	2.760	-0.398
	(0.042)	(0.309)	(0.864)	(-1.214)
Logta	1.301	0.352	-2.823	0.787
	(1.139)	(0.176)	(-0.739)	(1.523)
Beta	1.348	1.651	2.274	1.015*
	(1.374)	(1.145)	(0.598)	(1.753)
AI	4.455	18.566	-8.248	6.329
	(0.216)	(0.641)	(-0.227)	(0.694)
RDI	-38.604**	-49.388*	-98.803**	-3.114
	(-1.985)	(-1.903)	(-2.089)	(-1.060)
DER	-1.980***	-3.545***	-5.458	0.750***
	(-3.152)	(-3.368)	(-1.079)	(2.700)
MBR	0.507***	1.058***	1.446***	.
	(3.801)	(4.890)	(3.819)	(.)
Constant	-5.291	7.451	40.414	-5.899
	(-0.513)	(0.406)	(1.325)	(-1.209)
Observations	1,567	1,567	1,567	1,569
R-squared	0.114	0.139	0.107	0.189
Firm fixed effects	Yes	Yes	Yes	Yes
Industry fixed effects	No	No	No	No

Notes: This table provides the results of the DiD estimation. It aims at understanding the incremental effect of the mandatory law on IVA firms compared to the VA firms. Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 3.3 reports DiD estimation results specified in Equation (1), which aims to test our main conjecture on whether CSR spending should remain voluntary. In other words, we use this DiD estimation to check whether the mandatory CSR spending has any adverse effect on IVA firms which is over and above that of VA firms. We use IVA firms as the counterfactual treatment group and compare them with VA firms as our control group. This analysis helps capture the actual effect of mandatory CSR spending on firm financial performance and provides the answer to whether forcing a firm to spend on CSR has any adverse impact on its financial

performance. Our main contention is that, as long as forced or involuntary firms do not have any adverse effect, over-and-above voluntary firms, mandatory CSR spending is not that harmful.

The results show that *Timedummy* is negative and significant for *ROA* (β_0= -1.307; p < 0.0.05), *ROCE* (β_0= -2.600; p < 0.05), and *RONW* (β_0= -3.481; p < 0.05) and positive and significant for *MBR* (β_0= 1.514; p < 0.05). It implies that, in the post-regulation period, on average, the accounting performance of firms shows a decline, whereas market performance improved. Our coefficient of interest β_1, is not significant in any of the models. This suggests that, relative to VA firms, IVA firms in the post-regulation period do not exhibit any significant change in their financial performance. This implies that the law change did not adversely affect the financial performance of the IVA firms, that is, over and above VA firms. Overall, our DiD results do not support Manchiraju and Rajgopal's (2017) notion that involuntary spending on CSR will harm firm financial performance.

3.6.3 Robustness check for DiD analysis

One issue with our DiD setup is that our counterfactual sample is not randomly assigned, and hence it attracts violation of parallel trend assumption. Although we cannot address this issue, we perform a robustness check analysis by following (Flammer, 2015b) to estimate an alternate model of DiD and demonstrate that the results holds for the matched control group. We use the difference in performance (before and after the treatment) as the dependent variable and match each treated firm to an available control firm based on firm-level characteristics.

Following (Flammer, 2015b), we compute the difference in the average CFP of the firm (*ROA*, *ROE* & *MBR*) in the three years following the mandatory CSR (i.e., 2015-2017) spending law implementation minus the firm's average performance in the three years preceding the mandatory CSR spending law implementation (i.e., 2012-2014). We measure the effect of

mandatory CSR spending law on firm financial performance by estimating the following regression:

$$\Delta CFP_{it} = \alpha + \beta_0 Treatdummy_{it} + \beta_1 X_{it} + \varepsilon_{it} \quad (2)$$

Where *Treatdummy* takes values 1 and 0 for treated and matched control firms, respectively. The vector of control variables encompasses six firm characteristics that are used to construct the matched control group (risk, size, advertising intensity, R&D intensity, leverage, and MBR, all computed as average in the three years preceding the mandatory CSR spending law implementation, i.e., 2012-2014), and ε is the error term.

We cluster standard errors at the firm level. The DiD estimate, here, the difference in ΔCFP between treated and matched control firms is measured by β_0. In other words, it measures the effect of the mandatory CSR spending law on the CFP, taking into account the contemporary changes in the CFP at otherwise similar firms that do not experience a shock as a result of the mandatory CSR spending.

Table 3.4

Robustness analysis

VARIABLES	(1) ROA	(2) ROCE	(3) RONW	(4) MBR
Treatdummy	-0.048	0.247	-1.232	0.938
	(-0.050)	(0.180)	(-0.480)	(0.940)
Observations	126	126	126	126
Controls	Yes	Yes	Yes	Yes

Notes: This table provides results of robustness check with an alternate counterfactual sample. It aims at understanding the performance effect of the mandatory CSR spending law on IVA firms compared to the matched VA firms. *z* statistics are given in parentheses. °, *, **, and *** indicate significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

Table 3.4 reports the results of DiD estimation specified in Equation (2). It can be seen that the coefficient of *Treatdummy* is insignificant in all four models. This implies that there is no significant difference in the financial performance of VA and IVA firms in the three years

following the implementation of the mandatory CSR spending law. This further confirms our finding that law change did not adversely affect the performance of the IVA firms, that is, over and above VA firms.

3.7 CSR spending

This section provides a detailed account of how firms undertake CSR activities. The data obtained from the CSR reports of 2,433 firms are used to draw insights into their sector-wise CSR spending and the change in the trend over three years.

3.7.1 CSR portfolio allocation

Table 3.5

Sector-wise CSR spending across the period

Sector	**Clause No.**	**Amount Spent (Rs. in Million)**		
		2015	**2016**	**2017**
Poverty	i	7.842	22.464	5.928
		(64)	(81)	(92)
Education	ii	12.649	18.407	20.568
		(392)	(513)	(529)
Gender Equality	iii	11.02	7.037	6.432
		(52)	(70)	(93)
Maternal Health	iv	41.774	4.922	0.136
		(6)	(3)	(2)
Health	v	8.719	26.249	20.572
		(305)	(450)	(454)
Environment	vi	10.112	14.838	17.44
		(103)	(171)	(193)
Vocational Skill Development	vii	21.927	13.32	33.632
		(57)	(150)	(175)
Social Business Projects	viii	2.526	6.464	7.622
		(32)	(154)	(98)
Contribution to Government Funds	ix	4.008	4.806	3.832
		(58)	(82)	(41)
Other Projects	x	5.882	9.605	21.105
		(102)	(205)	(213)
Contribution to Foundation		2.244	88.482	20.800
		(13)	(25)	(57)
Rural Development Projects		9.901	22.564	77.332

	(105)	(147)	(154)
Total	138.604	239.158	235.399
	(1,289)	(2,051)	(2,101)

Notes: This table provides the sector-wise average CSR spending across firms for three years from 2015 to 2017. This aims at understanding the pattern of CSR spending of firms in the post-regulation period. Clause No. refers to the clause number of the concerned sector as per Schedule VII of the Companies Act, 2013. The number of firms is given in parentheses.

Table 3.5 reports sector-wise average CSR spending of firms for three years and the respective Clause numbers in the Schedule VII of the Companies Act, 2013. It shows that education, health, environment, skill development, other projects, and rural development projects are the top sectors that attract CSR investments from most firms. Only a few firms in the sample spent on CSR projects aimed at reducing poverty, enhancing gender equality, improving maternal health, contributing to government funds, and own foundations. It also shows a gradual increase in the number of firms engaged in CSR initiatives that focus on education, health, vocational skill development, and rural development projects. These results align with the sector-wise CSR data provided by the National CSR Portal, which shows that education, health, rural development, and the environment are the areas attracting the majority of the CSR investments[17]. It is evident that the CSR mandate, which is aligned with national priorities such as public health, education, livelihood, water conservation, natural resource management, etc.[18], to a large extent, has succeeded in driving CSR investments toward these areas. Further, as pointed out by Jones et al. (2014), a firm's pro-environmental practices act as a signal in the recruitment process.

Since the implementation of the law, the trend among firms has aimed at projects like building toilets and holding medical camps, which do not require sustained effort and can show visible results soon (Rajeev & Kalagnanam, 2017). This suggests that firms are more concerned about the visibility of their CSR projects. Thus, this table helps us understand the areas that attract

[17] https://www.csr.gov.in/developmentlist.php

[18] https://www.mca.gov.in/Ministry/pdf/CSRHLC_13092019.pdf

more CSR investments in the post-regulation period. Further, we look at the proportion of investments made by voluntary and involuntary firms in different sectors to get more insights into the nature of their CSR projects.

3.7.2. CSR portfolio allocation analysis

Table 3.6

Sector wise CSR spending of voluntary and involuntary firms

Sector	**Involuntary (%)**	**Voluntary (%)**
Poverty	3.771	1.034
Education	24.874	26.645
Gender Equality	2.016	0.962
Maternal Health	0.394	0.003
Health	21.582	28.982
Environment	5.639	9.841
Vocational Skill Development	8.171	11.357
Social Business Projects	1.824	1.862
Contribution to Government Funds	0.830	0.681
Other Projects	6.223	8.984
Contribution to Foundation	4.832	0.555
Rural Development Projects	19.843	9.094
Total	100.000	100.000

Notes: This table reports the proportion of CSR spent separately by voluntary and involuntary affected firms under different sectors. This aims to understand the pattern of investments of both groups of firms.

Table 3.6 provides information on the group-wise CSR spending of firms across different sectors. Similar to Table 3.5, this table also confirms that education, health, environment, skill development, other projects, and rural development projects are the sectors that receive the major portion of CSR fund allocation. In the case of IVA firms, education (24.874%) receives the major share of CSR spending, followed by health (21.582%) and rural development projects (19.843%). Whereas in the case of VA firms, the major portion of CSR spending is towards the health sector (28.982%), followed by education (26.645%), vocational skill development (11.357%), and environment (9.841%). It can be seen that the investment pattern of VA and

IVA firms is not different except that VA firms contribute a higher proportion towards health-related activities and IVA firms contribute a greater proportion towards rural development activities. As discussed earlier, these results align with the sector-wise CSR data provided by the National CSR Portal. This analysis rules out the argument that IVA firms that are forced to spend on CSR projects have been unproductive or have a significant difference in the spending pattern compared to VA firms. Further, we examine whether there is any significant difference in the amount invested by the two groups in different sectors.

Table 3.7

Mean difference test

Sector	**Voluntary**	**Involuntary**	**MD**
Poverty	0.172	0.277	-0.105*
			(-2.371)
Education	0.449	0.520	-0.071**
			(-2.897)
Gender Equality	0.096	0.159	-0.063*
			(-2.398)
Maternal Health	0.037	0.100	-0.063
			(-1.506)
Health	0.393	0.437	-0.044°
			(-1.742)
Environment	0.198	0.214	-0.016
			(-0.588)
Vocational Skill Development	0.233	0.316	-0.083*
			(-2.244)
Social Business Projects	0.221	0.257	-0.036
			(-0.814)
Contribution to Government Funds	0.291	0.363	-0.072
			(-0.787)
Other Projects	0.143	0.220	-0.077**
			(-3.110)
Contribution to Foundation	0.326	0.610	-0.284*
			(-2.740)
Rural Development Projects	0.264	0.349	-0.085*
			(-2.184)

Notes: This table shows whether there is any significant difference in the nature of CSR spending across different categories among voluntary and involuntary affected firms. t values are given in parentheses. °, *, **, and *** indicate significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

Table 3.7 reports the mean difference test results aimed to understand whether there is any significant difference in the nature of CSR spending across different categories among VA and IVA firms. It shows that on an average, IVA firms spend significantly higher than VA firms in areas such as poverty (p = 0.020), education (p = 0.004), gender equality (p = 0.017), health (p = 0.082), vocational skill development (p = 0.026), other projects (p = 0.002), contribution to foundation (p = 0.013) and rural development projects (p = 0.030). This indicates that IVA firms spend on high-impact sustainability projects like VA firms (as seen in Table 6), and their percentage contribution towards all the sectors, on average, is higher than that of VA firms. Another notable point is that there is no significant difference between the two groups regarding spending on environment-related CSR projects. These results suggest that IVA firms do not misuse their CSR spending and dismiss the argument that their managers are intrinsically demotivated by forcing them to invest in CSR.

3.7.3 Managerial involvement analysis

Table 3.8

Level of involvement of firms in CSR activities

	Voluntary		**Involuntary**	
Sector	**Direct**	**Indirect**	**Direct**	**Indirect**
Poverty	0.089	0.956	0.833	4.049
Education	15.572	10.712	8.315	13.082
Gender Equality	0.360	0.589	1.369	0.670
Maternal Health	0.003	0.000	0.069	0.355
Health	19.100	9.673	9.558	15.551
Environment	3.572	6.201	1.948	3.424
Vocational Skill Development	3.442	7.931	2.974	4.779
Social Business Projects	0.106	1.752	0.563	1.154
Contribution to Government Funds	0.225	0.456	0.531	0.236
Other Projects	2.976	5.921	1.335	4.545
Contribution to Foundation	0.288	0.267	0.245	6.447
Rural Development Projects	5.363	3.721	2.245	7.074
Total	51.096	48.180	29.984	61.366

Notes: This table reports the level of involvement of voluntary and involuntary affected firms while undertaking CSR activities under different sectors. This aims to understand the proportion of CSR activities undertaken by the firms directly and indirectly through implementing agencies.

We further examine the level of involvement of VA and IVA firms regarding their CSR projects. Table 3.8 shows the sector-wise data on the level of involvement of firms in CSR activities. The level of involvement of a firm in the CSR project is decided based on whether the firm undertook the project directly or through implementing agency, as indicated by the *Direct dummy*. Table 3.7 reveals that around 51 percent of CSR projects of VA firms are implemented directly by them, whereas IVA firms implement only about 30 percent of CSR projects directly. Of the 51% directly implemented CSR projects, VA firms spent 19% on health and 15% on education. In the case of IVA firms, the two sectors that receive the highest direct spending percentage remain the same as VA firms, but the percentage spent is 9 percent and 8 percent, respectively. IVA firms implement more than 61 percent of their CSR projects through implementing agencies, while 48 percent for VA firms. Similar to direct spending, the education and health sectors receive the highest percentage through indirect spending. It is 10% and 9% for VA firms and 13% and 15% for IVA firms. This indicates that the familiarity of voluntary firms in undertaking social initiatives makes it easy for them to handle most of their CSR projects directly. On the other hand, firms that started to spend on CSR due to the regulatory compulsion prefer to implement it through other agencies.

Table 3.9

Management involvement analysis

VARIABLES	(1) ROA	(2) ROCE	(3) RONW	(4) MBR
Panel A: Voluntary firms				
Direct dummy	-0.372	-0.753	-0.813	0.447
	(-0.040)	(-0.440)	(-0.370)	(0.680)
Observations	96	96	96	96
Controls	Yes	Yes	Yes	Yes

Panel B: Involuntary firms				
Direct dummy	-1.551**	-1.240	-1.495	-1.163
	(-2.810)	(-1.440)	(-1.360)	(-0.360)
Observations	604	604	604	604
Controls	Yes	Yes	Yes	Yes

Notes: t values are given in parentheses. °, *, **, and *** indicate significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

Given that there is a difference in the level of involvement of voluntary and involuntary firms in executing CSR activities, we examine whether CSR spending with direct involvement in the CSR project improves firm financial performance compared to outsourcing. In other words, we check whether there is any variation in the relationship between CSR and financial performance across voluntary and involuntary firms based on when they are highly involved in the implementation of the CSR projects. For this purpose, we estimate the following regression model using a matched sample where each firm directly involved in CSR spending is matched with one which is outsourcing CSR activities, based on firm-level characteristics, within VA and IVA firms separately:

$$CFP_{it} = \alpha + \beta_0 Direct\ dummy_{it} + \beta_1 X_{it} + \varepsilon_{it}, \qquad (3)$$

Where CFP_{it} is the financial performance of firm i in the year t, defined as *ROA*, *ROCE*, *RONW*, or *MBR*. *Direct dummy* is a dummy variable that takes value 1 if the firm implements the project directly and 0 otherwise. Table 3.9 reports the regression model results specified in Equation (3) for VA and IVA firms separately. *Direct dummy* is not significant in all the models for ($p > 0.05$), except in Model 1 of IVA firms. This implies that the direct involvement of firms in CSR activities does not have any significant effect on the relationship between CSR and firm financial performance for both VA and IVA firms, except on short-term performance of IVA firms as measured by *ROA*. Thus, our results do not support our hypothesis that higher managerial involvement in CSR spending improves firm financial performance for voluntary and involuntary firms.

3.7.4. Managerial commitment analysis

Table 3.10

Management commitment analysis

VARIABLES	(1) ROA	(2) ROCE	(3) RONW	(4) MBR
Panel A: Voluntary firms				
Exceed	0.353	0.798	-0.087	0.596
	(0.420)	(0.840)	(-0.040)	(0.660)
Observations	68	68	68	68
Controls	Yes	Yes	Yes	Yes
Panel B: Involuntary firms				
Exceed	1.031	1.695	2.234	-0.146
	(1.260)	(1.080)	(1.390)	(-0.160)
Observations	440	440	440	440
Controls	Yes	Yes	Yes	Yes

Notes: t values are given in parentheses. °, *, **, and *** indicate significance at the 10%, 5%, 1%, and 0.1% levels, respectively.

We further examine whether managerial commitment makes any difference in firm financial performance. Similar to the data used in Section 3.7.3, we use a matched sample where each firm that has an overshoot in CSR budget is matched with one which does not exceed the budget, based on firm-level characteristics to estimate the following regression model separately for VA and IVA firms:

$$CFP_{it} = \alpha + \beta_0 Exceed_{it} + \beta_1 X_{it} + \varepsilon_{it}, \qquad (4)$$

Where CFP_{it} is the financial performance of firm i in the year t, defined as *ROA*, *ROCE*, *RONW*, or *MBR*. *Exceed* is a dummy variable that indicates whether the firm exceeds its budgeted CSR amount or not. Table 3.10 reports the results of the regression model specified in Equation (4). Thus, in Table 3.10, we report the effect of the budget overshoot of CSR on firm financial performance for VA and IVA firms. *Exceed* is not significant in all the models. Thus, our results do not support our hypothesis that higher managerial commitment to CSR spending improves the firm financial performance of voluntary and involuntary spending firms.

Overall, our results do not find any significant adverse effect of forcing firms to spend on CSR. The results suggest that the government's aggressive decision has the potential to reduce the gap between perceived importance and practiced CSR in the corporate world.

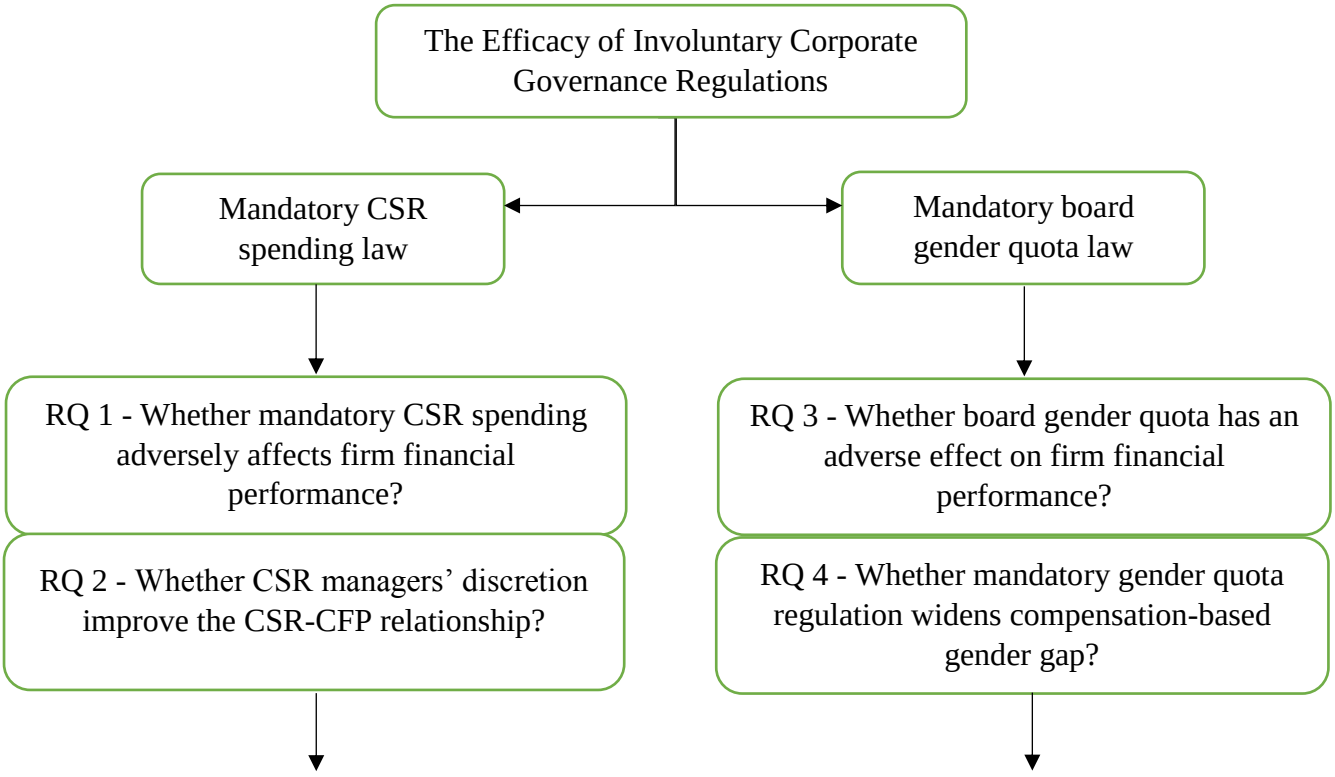
CHAPTER 4

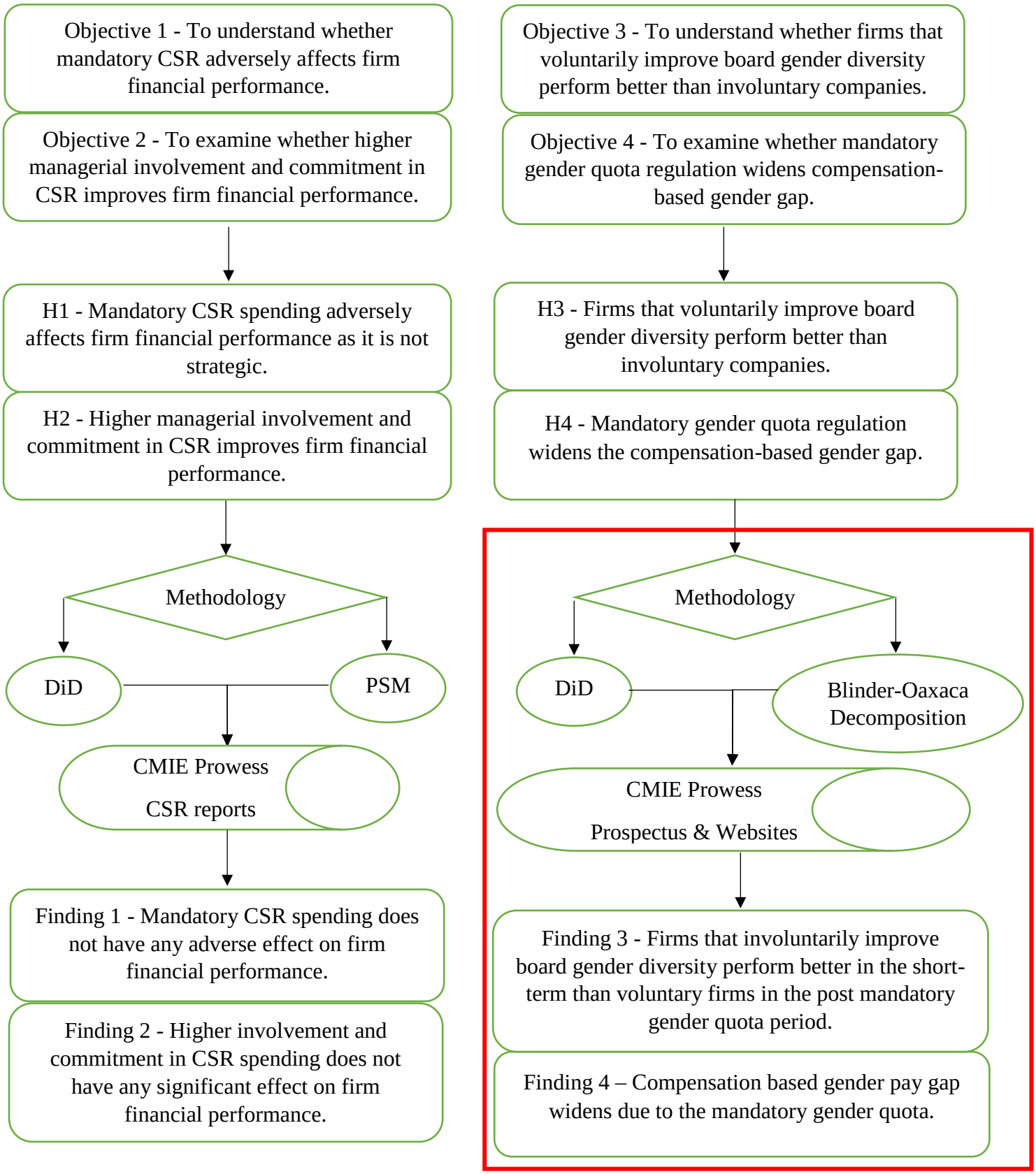
Study 2 - On the Side Effects of Mandatory Gender Diversity Laws in Corporate Boards

This chapter constitutes a detailed description of the setting, data, and methodology adopted to study the efficacy of the mandatory board gender quota law. It outlines the research methodology adopted for the study, i.e., the Blinder-Oaxaca decomposition proposed by Blinder (1973) and R. Oaxaca (1973). It also describes the variables used in the study. The chapter also discusses the results of analyses of the data to address the research questions in Chapter 2 and a detailed interpretation of their results.

Flowchart 4.1

Position of Chapter 4 in the thesis




Objective 1 - To understand whether mandatory CSR adversely affects firm financial performance.
Objective 2 - To examine whether higher managerial involvement and commitment in CSR improves firm financial performance.
H1 - Mandatory CSR spending adversely affects firm financial performance as it is not strategic.
H2 - Higher managerial involvement and commitment in CSR improves firm financial performance.
Methodology
DiD
PSM
CMIE Prowess
CSR reports
Finding 1 - Mandatory CSR spending does not have any adverse effect on firm financial performance.
Finding 2 - Higher involvement and commitment in CSR spending does not have any significant effect on firm financial performance.
Objective 3 - To understand whether firms that voluntarily improve board gender diversity perform better than involuntary companies.
Objective 4 - To examine whether mandatory gender quota regulation widens compensation-based gender gap.
H3 - Firms that voluntarily improve board gender diversity perform better than involuntary companies.
H4 - Mandatory gender quota regulation widens the compensation-based gender gap.
Methodology
DiD
Blinder-Oaxaca Decomposition
CMIE Prowess
Prospectus & Websites
Finding 3 - Firms that involuntarily improve board gender diversity perform better in the short-term than voluntary firms in the post mandatory gender quota period.
Finding 4 – Compensation based gender pay gap widens due to the mandatory gender quota.

4. Data & methodology

4.1 Setting - Corporate board gender quota in India

Following the global trend, the Government of India, by the amendment of the Companies Act, 2013, made it mandatory for the listed companies or those that satisfy certain criteria to have at least one female director on their boards. As per Section 149 of the Companies Act, 2013, firms fulfilling specific criteria shall have one female director on their board. The details of a female director's appointment on the corporate board are given in Rule 3 of Companies (Appointment and Qualifications of Directors) Rules, 2014. The details on the type of firms on which Section 149 is applicable are detailed in the rule. Further, within one year of its commencement, every listed firm has to comply with the requirements of Section 149. It also states that within three years from the commencement of this provision, it is mandatory to have a female director in any other public company with a paid-up capital of 100 crores or more or a turnover of 300 crores or more. Further, it only mandates a female director's appointment, and she can be independent or non-independent.

The Act does not contain any separate provision on the penalty for the non-appointment of a female director. However, the penalty laid down in Section 172 is applicable in non-compliance concerning a female director's appointment. As per the Section, the company in default, and every officer of such company shall be levied a fine not less than INR 50,000 but may extend to INR 5,00,000. Officer in this regard can be any director, manager, or key managerial person (including CFO and CS) or any other person who issues directions or instructions to the Board of Directors or any one or more of the directors.

4.2 Data

Our sample includes directors of the top 500 firms listed on the Bombay Stock Exchange (BSE 500), representing a total market capitalization of nearly 93% on BSE[19] for a period of ten years from 2010 to 2019. BSE 500 covers all major industries in the Indian economy and represents the Indian market[20]. Following Chih et al. (2008), we excluded financial firms, which results in 405 firms. The financial firms are excluded because the high leverage that is normal for these firms probably does not have the same meaning as for non-financial firms, where high leverage more likely indicates distress. Our total sample contains information on 56,976 director-level and 4,050 firm-level observations. We obtained corporate governance and financial data of firms from three major sources, namely, Prowess, a database maintained by the Centre for Monitoring Indian Economy (CMIE), prospectuses of sample firms, and websites of sample firms for missing corporate governance data. With the implementation of the gender quota law, every listed firm is subject to the law. The proportion of female directors in the sample firms has doubled in the period under consideration (4.6 to 10.8 percent). Thus, it is evident that the gender quota law has successfully reduced the *RGP* as seen across the world.

4.3 Variables

4.3.1 Dependent variables

Our study uses director compensation as the primary outcome variable. We measure director compensation using *Log total* (for total compensation), *Log sitting*, *Log salary*, and *Log commission*. All four variables are natural logarithms based on corresponding compensation in INR.

[19] http://www.iepf.gov.in/IEPF/sensex.html
[20] https://www.asiaindex.co.in/indices/equity/sp-bse-500

4.3.2 Explanatory variables

Rookie director takes value 1 for rookie directors with no prior experience (RFDs and RMDs) & 0 for non-rookie directors. We use the *Rookie director* variable to understand the impact of regulation on the directorial labor market in the post-quota period. *Gender* is a dummy variable that takes value 1 for female directors and 0 for male directors.

Following Rebérioux and Roudaut (2019), the main explanatory variables measure director characteristics in the compensation models. We use director level variables such as Director age, Directorships, Tenure, Foreign citizenship dummy, Higher education dummy, and Indian elite institutions affiliation dummy (Indian Institute of Management - IIM or Indian Institute of Technology - IIT). We also include committee memberships, namely, Monitoring committee membership, Advising committee membership, Monitoring committee chair, and Advising committee chair. *Director age* is the age of the director in years. *Age of entry* is directors' age when he or she joins corporate board for the first time. *Log age* is the natural logarithm of the age of the director. *Directorships* variable represents the number of boards in which the individual serves as a director. *Tenure* measures the number of years since the appointment. *Tenure squared* is the squared term of the number of years since the appointment. *Outsider* is a dummy variable equal to 1 if the director is independent, and *Insider* is a dummy that equals 1 if the director is an insider. *Foreign* is a dummy variable that takes value 1 if the director is not an Indian citizen. *High education* is a dummy variable equals to 1 if the director has a post-graduate degree or above. *Elite institute* is a binary variable that takes value 1 if the director has graduated from India's top educational institutions, namely IIM or IIT. *Monitoring member* and *Monitoring chair* are dummy variables indicating if the director is a member or chair of monitoring committee such as audit, compensation, or nominating. *Advising member* and *Advising chair* are dummy variables indicating if the director is a member or chair of advising

committee such as risk strategy, corporate social responsibility, technology management which provide strategic advice to the firm.

4.3.3 Control variables

We employ control variables in accordance with prior studies. Following Adams and Ferreira (2009), Ahern and Dittmar (2012), Eckbo, Nygaard, and Thorburn (2016), and others, we control for board independence, which is the percentage of outside directors on the board (*Independent%*) and firm age, which is measured as the number of years since the incorporation of the firm (*Firm age*). We control for firm size, firm performance, and board size (Hillman, Shropshire, & Cannella Jr, 2007; Thams, Bendell, & Terjesen, 2018). Firm size is measured as the natural logarithm of annual sales *(Log sales*) and is included as larger organizations generally have more female directors (Hillman et al., 2007). *Board size* measures the total number of board members. Literature highlights that bigger boards have more female directors (Hillman et al., 2007). We also include leverage and industry effects as control variables (D. A. Carter, Simkins, & Simpson, 2003; Hillman et al., 2007). Leverage is controlled by including the debt to equity ratio (*DER*) of the firm.

4.4 Methodology for measuring compensation-based gender gap

We employ the Blinder-Oaxaca decomposition method to estimate *CGP* and quantify the effects of various factors contributing to differences in male and female directors' compensation. This method is widely used to measure inequality in labor economics (Blinder, 1973; R. Oaxaca, 1973). It quantifies the compensation differences across groups arising from different factors (R. L. Oaxaca & Ransom, 1999). This method permits allocating differences in male and female compensation to their individual characteristics differences (Adnan & Miaari, 2018). In the recent literature, this method is applied in other fields to measure inequality, including health (Awaworyi Churchill, Munyanyi, Prakash, & Smyth, 2020; Foster,

Hillemeier, & Bai, 2011; Kino & Kawachi, 2020; Laborda, Elosúa, & Gómez-Veiga, 2019; Singleton, Young, Kessee, Springfield, & Sen, 2020), technology (Liao, Chang, Wang, & Sun, 2016), corporate governance and finance (Rebérioux & Roudaut, 2019).

Following Rebérioux and Roudaut (2019), we focus on the directors' compensation gap across the non-financial firms of the Indian BSE500 index. First, the Blinder-Oaxaca technique requires the estimation of two linear regression models on the factors that determine director compensation for males (m) and females (f) separately:

$$\overline{Y_m} = \widehat{\beta_m}\overline{X_m} + \varepsilon_m \quad \text{where} \quad \varepsilon_m \sim N(0, \sigma_{\varepsilon m}^2) \tag{1}$$

$$\overline{Y_f} = \widehat{\beta_f}\overline{X_f} + \varepsilon_f \quad \text{where} \quad \varepsilon_f \sim N\left(0, \sigma_{\varepsilon f}^2\right) \tag{2}$$

Where $\overline{Y_m}$ and $\overline{Y_f}$ represent the average values of director compensation, including *Log total*, *Log sitting*, and *Log commission*. $\overline{X_m}$ and $\overline{X_f}$ represent the average values observed features of individuals' which affect their compensation, $\widehat{\beta_m}$ and $\widehat{\beta_f}$ represent the estimated effects of these features on the compensation and ε_m and ε_f denote the error terms in the regression. The dependent variable's linear properties allow us to estimate the model using Ordinary Least Squares (OLS) regression.

The standard Blinder-Oaxaca decomposition model to estimate the gender compensation gap based on equations (1) and (2) is as follows:

$$\overline{Y_m} - \overline{Y_f} = \left(\overline{X_m} - \overline{X_f}\right)\widehat{\beta_m} + \overline{X_f}\left(\widehat{\beta_m} - \widehat{\beta_f}\right) \tag{3}$$

We take the average level of female compensation as the baseline in our decomposition specification. Thus, in effect, we examine what it would take for the average level of the female compensation to converge to male.

The explained part in the decomposition equation, $(\overline{X_m} - \overline{X_f})\widehat{\beta_m}$, shows the influence of gender difference in independent variables by assessing the average differences in the features of males and females. As per Equation (3), $(\overline{X_m} - \overline{X_f})$, is weighted by the vector of coefficients $(\widehat{\beta_m})$ of males. This term would capture the average change in female compensation level if they had the same features as males. The unexplained part, $\overline{X_f}(\widehat{\beta_m} - \widehat{\beta_f})$, gives the gap resulting from differences in the coefficients of independent variables in the male and female compensation models. As per equation (3), the difference in the coefficient term, $(\widehat{\beta_m} - \widehat{\beta_f})$, is weighted by the vector of mean endowments of explanatory variables $(\overline{X_f})$ of females. Our study would specify the average change in female compensation if they had male coefficients while holding their features constant (Jann, 2008).

Put differently, the differences across gender concerning the observable features are captured by the explained part. Whereas the unexplained part captures the differences in return for each observable feature across gender. Hence, it is widely recognized as a measure of discrimination. However, the unexplained part may also stem from the omission of unobservable variables (Rebérioux & Roudaut, 2019).

4.5 Empirical results

4.5.1 Univariate analyses

4.5.1.1 Director characteristics - Univariate analyses:

Table 4.1

Average director characteristics

Panel A – Post-Quota Period								
	Rookie		Non-rookie		Tests of average difference			
	Female (1)	Male (2)	Female (3)	Male (4)	(1) - (2)	(1) - (3)	(1) - (4)	(3) - (4)
Higher education%	0.26	0.34	0.06	0.26	-0.08***	0.20***	0.00	-0.19***
					(-7.84)	(23.28)	(0.52)	(-78.57)
Elite institute%	0.02	0.04	0.003	0.02	-0.02***	0.01***	0.00	-0.01***
					(-5.65)	(4.77)	(0.36)	(-19.55)
Abroad education%	0.11	0.13	0.027	0.113	-0.02*	0.09***	0.00	-0.09***
					(-2.17)	(14.70)	(0.68)	(-50.81)
Foreign%	0.027	0.032	0.002	0.009	-0.005	0.025***	0.018***	-0.007***
					(-1.09)	(7.60)	(5.30)	(-19.04)
Insider%	0.05	0.02	0.02	0.03	0.03***	0.03***	0.03***	-0.01***
					(5.96)	(6.46)	(5.37)	(-4.56)
Outsider%	0.26	0.17	0.05	0.25	0.09***	0.21***	0.01	-0.20***
					(9.73)	(24.46)	(1.83)	(-85.99)
Age of entry	53.47	55.64	56.31	61.48	-2.17***	-2.84*	-8.01***	-5.17***
					(-4.20)	(-2.50)	(-13.54)	(-4.69)
Director age	54.83	56.87	58.49	63.45	-2.04***	-3.66***	-8.61***	-4.95***
					(-7.00)	(-10.79)	(-32.53)	(-21.73)
Directorships	1.704	1.301	2.374	1.831	0.40***	-0.67***	-0.13***	0.54***
					(12.10)	(-13.07)	(-3.85)	(13.14)
Tenure	2.623	3.464	8.990	11.53	-0.84***	-6.37***	-8.91***	-2.54***
					(-7.92)	(-35.85)	(-96.99)	(-15.36)
Observations					5,784	3,399	27,253	27,730

Panel B – Pre-Quota Period			
			Tests of average difference
	Female (1)	Male (2)	(1) - (2)
Higher education%	0.05	0.24	-0.19***
			(-72.24)
Elite institute%	0.001	0.011	-0.01***
			(-22.35)
Abroad education%	0.02	0.10	-0.08***
			(-43.48)
Foreign%	0.002	0.007	-0.005***
			(-12.14)
Insider%	0.032	0.031	0.001
			(0.50)
Outsider%	0.04	0.25	-0.21***
			(-88.55)
Age of entry	53.43	58.64	-5.20***
			(-9.30)
Director age	55.02	60.54	-5.52***
			(-19.07)
Directorships	1.41	1.44	-0.03
			(-0.98)
Tenure	7.20	8.82	-1.62***
			(-8.08)
Observations			23,462

Note: Panel A presents the averages of director characteristics in sample firms in the post-quota period, and Panel B provides averages of director characteristics in the pre-quota period. Observations are at the individual-firm-year level. t-statistics for tests of average difference are indicated in parentheses. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *.

Table 4.1 provides information on the main characteristics of RFDs compared to the other three categories of directors (rookie males, non-rookie females, and non-rookie males). Panel A is for the post-quota period, while Panel B is for the pre-quota period. In the latter case, we just compare the characteristics of females and males.

RFDs are significantly younger than the rookie and non-rookie male directors and non-rookie females when entering the board. The rookie female directors joined the Indian corporate board at a much younger age than all other categories, namely 53 on average. The tenure of RFDs is significantly lower than the tenure of non-rookie directors and the tenure of rookie males.

Regarding nationality, we see that the proportion of foreign nationals among RFDs is 2.7 percent. This proportion is significantly higher than non-rookie directors (0.9 percent for males and 0.2 percent for females). However, there is no significant difference from that of RMDs. Similarly, the proportion of RFDs with higher education, abroad education, MBA degree, and those who graduated from an elite institute is significantly lower than the male directors but higher than non-rookie females.

Table 4.1 shows a significant difference in the proportion of independent and inside directorships between RFDs and others. Directorships held by RFDs are on average 26 percent independent against 17 percent for rookie males and 5 percent for non-rookie females. Further, the proportion of RFDs with inside directorships is also significantly higher than the rest three groups. Moreover, within non-rookie directors, the proportion of NRMDs is considerably higher in terms of higher education, elite institute graduation, abroad education, foreign nationals, inside and independent directorships. Similar to RFDs, NRFDs are younger and have more directorships than NRMDs.

Panel B (Table 4.1) compares the characteristics of directorships held by females and males in the pre-quota period (2010– 2014). We observe that the average characteristics of male and

female directors were not significantly different from that in the post-period, except for the average directorships.

We have provided evidence that RFDs, appointed to comply with the gender quota substantially differed from other groups of directors. They are highly qualified, however, they receive significantly lower compensation than others. In particular, they are highly educated, are elite institute graduates, are educated abroad, are more independent, and are younger than the NRFDs. RFDs, on average, have more directorships than RMDs.

Table 4.2

Mean difference tests - CGP

Panel A – Post-Quota Period								
	Rookie		Non-rookie		Tests of average difference			
	Female (1)	Male (2)	Female (3)	Male (4)	(1) - (2)	(1) - (3)	(1) - (4)	(3) - (4)
Salary	12.66	21.47	19.10	31.44	-8.81***	-6.45***	-18.79***	-12.34***
					(-5.14)	(-3.49)	(-11.57)	(-8.47)
Sitting Fees	0.321	0.361	0.375	0.426	-0.04**	-0.05***	-0.10***	-0.05***
					(-2.82)	(-3.56)	(-9.49)	(-4.13)
Commission	1.730	5.848	4.560	13.15	-4.12***	-2.83***	-11.42***	-8.59***
					(-8.41)	(-7.84)	(-19.36)	(-12.88)
Total	2.304	10.99	8.189	15.92	-8.69***	-5.88***	-13.61***	-7.73***
					(-16.10)	(-10.55)	(-29.03)	(-11.55)
Observations					5,784	3,399	27,253	27,730
Panel B – Pre-Quota Period								
					Tests of average difference			
	Female (1)	Male (2)			(1) - (2)			
Salary	13.17	15.51			-2.34*			
					(-2.20)			
Sitting Fees	0.121	0.143			-0.02***			
					(-3.56)			
Commission	3.460	7.319			-3.86***			
					(-8.74)			
Total	6.136	8.322			-2.19***			
					(-4.20)			
Observations					23,462			

Note: This table provides mean difference tests that aim at examining the compensation gap between male and female directors. In panel A, the results of gender compensation gap analyses are done for the post-quota period for rookie and non-rookie directors. In Panel B, the same analysis is repeated with the male and female director sample in the pre-quota period. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *

4.5.1.2 CGP - Univariate analyses:

We repeat similar univariate analyses to understand, at the mean level, if there is any significant difference in the compensation among male and female directors in the pre and post-quota period. The results show that female directors, in general, receive lower compensation than male directors. RFDs receive significantly lower compensation than all the other groups, except for sitting fees. The average sitting fees of RFDs are significantly higher than RMDs and lower than NRMDs, however, no significant difference with that of NRFDs. NRFDs receive significantly lower compensation than NRMDs in all forms of compensation. Similar to the results in Panel A, the gender pay gap is significant in all forms of compensation. Thus, Table 4.2 provide evidence of the gender compensation gap in the corporate directors' market both in the pre and post period. In summary, unlike *RGP*, *CGP* persists and widens in the post-quota period. This preliminary evidence is in line with our hypothesis that law change widened the compensation-based gender gap.

4.5.2 Forced gender diversity and compensation-based gender gap

4.5.2.1 The general trends in the RGP and CGP:

We present time-series graphs to visualize *RGP* and *CGP* over time, more importantly, in the pre and post forced gender diversity periods. We start our analyses with these graphs to understand the broad trends due to the effects of *RGP* and *CGP*.

Figures 4.1a – 4.2d

Compensation gender gap vs. representation gender gap

Figure 4.1a

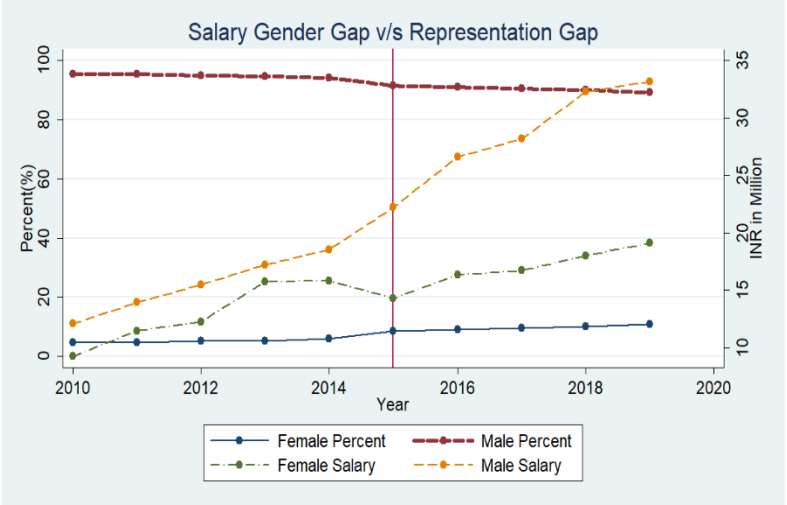


Figure 4.1b

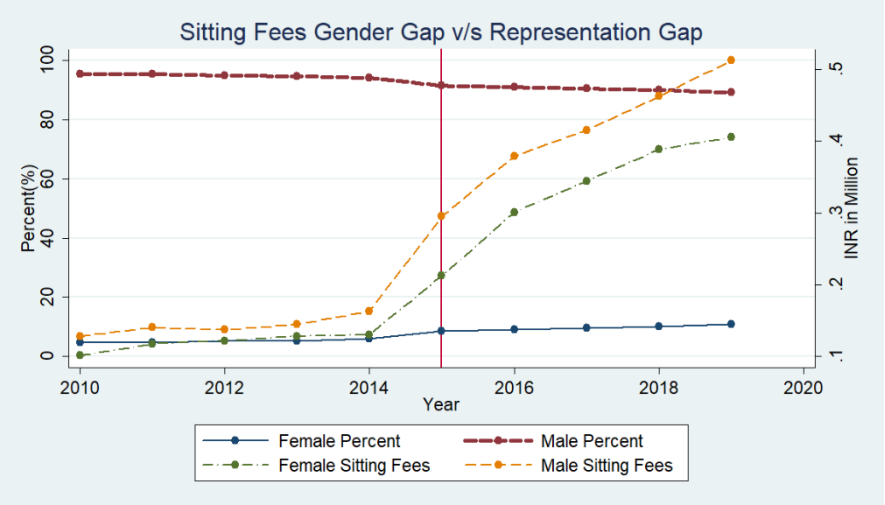


Figure 4.1c

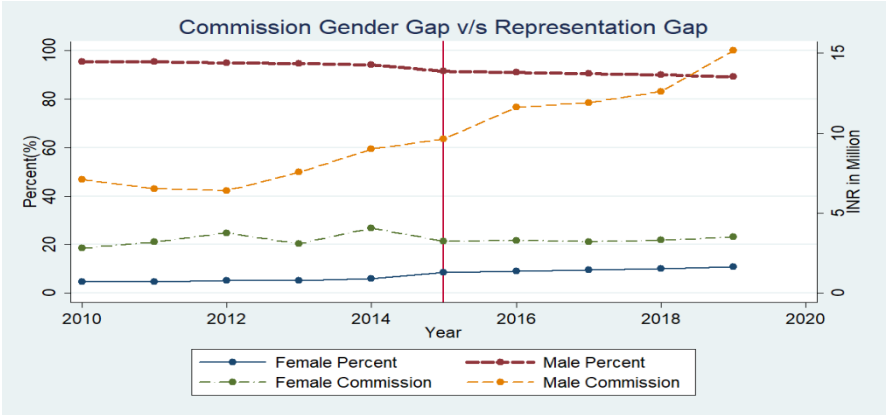


Figure 4.1d

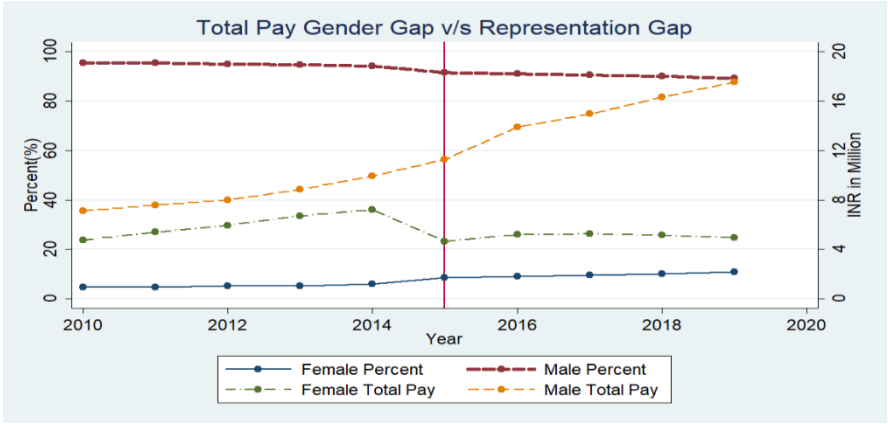


Figure 4.2a

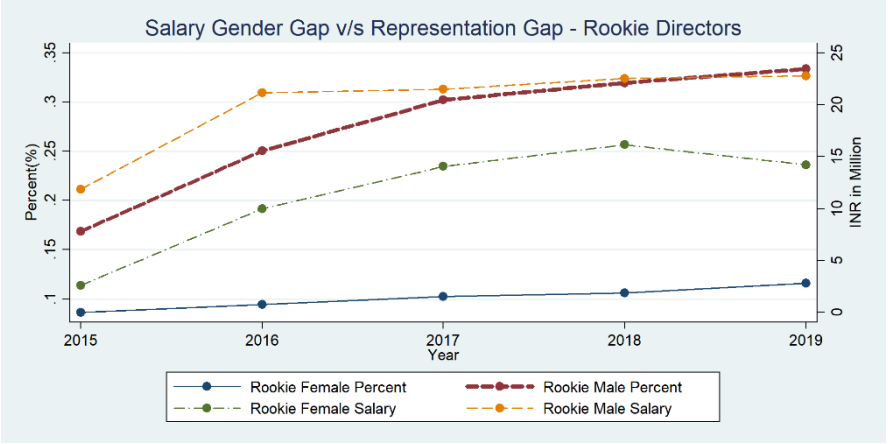


Figure 4.2b

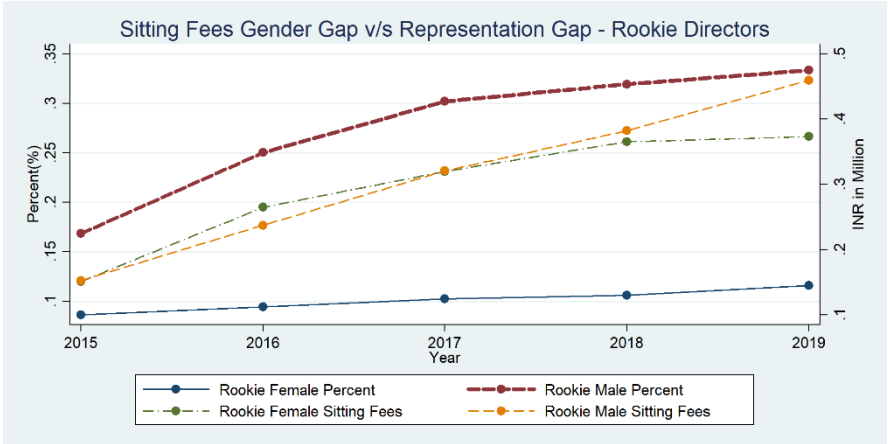


Figure 4.2c

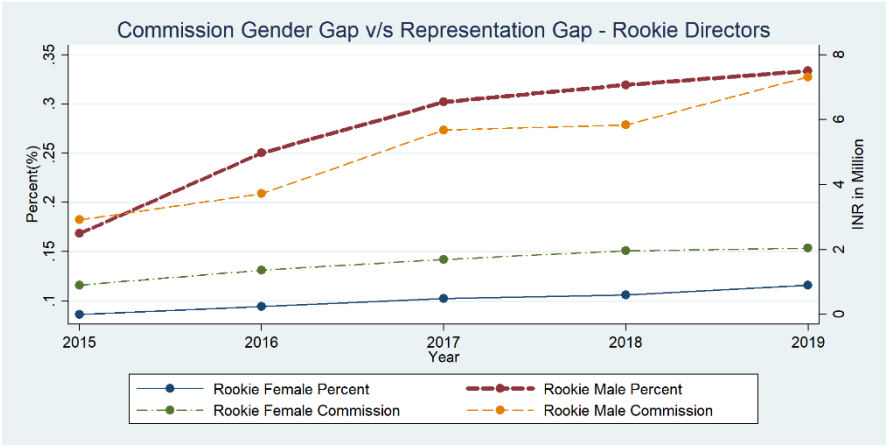
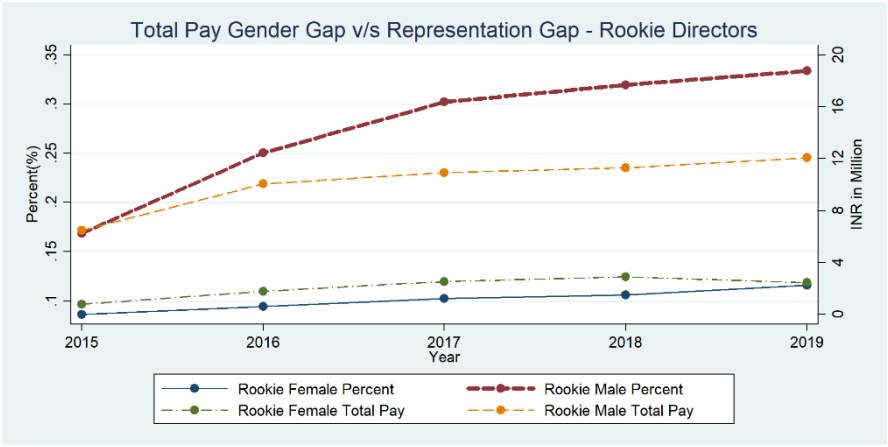


Figure 4.2d



Note: Figure 4.1a – 4.1d show the RGP and CGP between male and female directors across the sample period. Figure 4.2a – 4.2d shows the sitting fees gap between rookie male and female directors in the post-quota period.

Figures 4.1a - 4.1d present the *RGP* and *CGP* across the whole sample period. It is evident from the figures that *RGP* shows a converging trend over the period, albeit slower. However, the convergence level is more significant with the implementation of the mandatory gender quota law. Figure 4.1a shows that the average salary of male directors is steadily going up at an increasing rate. However, the average salary of female directors has slowly increased in the pre-period and then shows a slow decline and further increased in the post-period at a lower rate than male directors. Figure 4.1b shows that although there is a general increase in both male and female directors' sitting fees, the *CGP*, in terms of sitting fees, further widened in the post-quota period. Similarly, *CGP*, in terms of commission (Figure 4.1c) and total compensation (Figure 4.1d), has widened in the post-quota period. In summary, these figures' trends are in line with our hypothesis that *CGP* widens due to the mandatory gender quota.

Figures 4.2a-4.2c display the general trends in *CGP* for rookie directors. The trend is quite similar to that of the general trend. This further asserts that the mandatory gender quota effect on widening the *CGP* is much more severe in the case of rookie directors.

4.5.2.2 Supply and demand dynamics in female directors' labor market

Table 4.3

Year-on-year change in directors and directorships

Year	Panel A		Panel B	
	Number of unique female directors over the sample period		Number of directorships across the sample period	
	Non-rookie female directors	Rookie female directors	Non-rookie female directors	Rookie female directors
2010	146	0	146	0
2011	160	0	160	0
2012	187	0	187	0
2013	211	0	306	0

2014	243	0	350	0
2015	244	137	390	195
2016	243	191	397	272
2017	241	241	400	338
2018	241	300	403	423
2019	240	381	418	558

Note: The table presents the year-on-year change in the number of unique directors and directorships of female directors, dividing them into non-rookie and rookie directors.

We focus our analysis on understanding the role of supply and demand dynamics in female directors' labor market for explaining the widening of the gender compensation gap, as evident in figures 4.1a-4.2c. Given that widening can result from both supply overshoot or shortage of female directors, we look at the number and directorships of female directors, both the non-rookie pool of female directors and female directors without prior experience. This helps to observe any sudden jump or shortage of the number and directorships of rookie and non-rookie female directors in the post mandatory gender quota period. Panel A of Table 4.3 presents the number of unique female directors, divided into non-rookie and rookie directors. The number of new directors has steadily increased over the sample period. In the year 2018, the number of RFDs is more than twice that of NRFDs. This provides preliminary evidence favoring the supply overshoot argument.

Panel B of Table 4.3 shows a sudden jump in the number of non-rookie female directors' directorships in 2013 compared to the previous year. However, in the following years, the percentage of change has gradually dropped in non-rookie female directors. In contrast, there is a considerable increase in the number of directorships of female directors without prior experience. This again confirms our argument of supply overshoot as the RFDs have proportionately higher growth in the number of directorships over the period than the NRFDs.

4.5.2.3 CGP - Blinder-Oaxaca decomposition analyses:

Our preliminary analyses in Table 4.2 and figures in Section 4.5.2.1 indicate that the law change widened the *CGP*. We now extend our analyses to understand the effect of the mandatory gender quota on *CGP* using the Blinder-Oaxaca decomposition analysis. This analysis helps identify the extent to which various personal and professional characteristics of the directors can explain *CGP*. More importantly, this analysis identifies the extent of gender-based discrimination associated with *CGP*. Tables 4.4 - 4.7 report the results of Blinder-Oaxaca decomposition analyses to understand *CGP* associated with salary, sitting fees, commission, and total compensation, respectively.

Table 4.4 presents the results of Blinder-Oaxaca decomposition analyses of salary-based *CGP* in the pre and post-quota periods. The results show that there exists no difference in mean salary-based *CGP* in the pre-quota period. However, in the post-quota period, it widens significantly to the detriment of female directors by an average salary gap of 0.258 log points. This indicates the widening of *CGP* associated with salary after implementing the mandatory gender quota. All the explanatory variables' contribution in explaining the gender gap in director compensation in the pre and post-quota periods is decomposed into the endowment (explained) and coefficient (unexplained) effects in Table 4.4. The results show that the gender gap in *Log salary* in the post-period is significantly explained by the differences in coefficients effect, whereas the endowment effect goes in the opposite direction, though it is insignificant.

Table 4.4

Blinder-Oaxaca decomposition analyses – Salary

	Pre-quota period			Post-quota period		
VARIABLES	**Log salary**	**Explained**	**Unexplained**	**Log salary**	**Explained**	**Unexplained**
Males	15.951***			16.458***		
	(864.466)			(859.670)		
Females	15.864***			16.201***		
	(174.056)			(218.904)		
Difference	0.087	-0.082	0.169	0.258***	-0.105	0.363***
	(0.931)	(-0.687)	(1.200)	(3.374)	(-1.179)	(3.555)
Log age		0.334***	-7.498***		0.027	-2.430*
		(3.443)	(-3.807)		(0.573)	(-1.736)
Tenure		0.017	-0.163		0.218**	-0.953***
		(0.307)	(-0.447)		(2.412)	(-3.245)
Tenure squared		-0.092	0.436*		-0.244***	0.650***
		(-1.286)	(1.874)		(-2.949)	(3.407)
Directorships		-0.008	-0.053		-0.021	-0.246*
		(-0.791)	(-0.289)		(-1.347)	(-1.942)
Outsider		Omitted	-0.004**		0.003	0.004
			(-2.373)		(0.329)	(0.636)
Insider		-0.179**	-0.211**		0.015	0.009
		(-2.212)	(-2.293)		(0.372)	(0.136)
Foreign		Omitted	0.022***		0.004	-0.022*
			(6.306)		(0.234)	(-1.895)
High education		-0.073**	-0.140*		-0.009	-0.046
		(-2.412)	(-1.650)		(-1.026)	(-0.621)

Elite institute	-0.070**	0.126***	-0.092**	0.154***
	(-2.044)	(2.819)	(-2.275)	(3.189)
Monitoring member	Omitted	0.001	0.010	-0.001
		(0.696)	(0.255)	(-0.028)
Advising member	Omitted	0.001	-0.014	0.018
		(0.812)	(-0.896)	(0.780)
Monitoring chair	Omitted	0.001	Omitted	-0.001
		(1.226)		(-1.194)
Advising chair	Omitted		-0.001	-0.001
			(-0.021)	(-0.073)
Constant		7.511***		3.352**
		(4.013)		(2.451)
Observations	**4,416**		**4,941**	

Note: This table reports Blinder-Oaxaca decomposition analysis results to examine whether the gender gap in salary varies between the pre and post mandatory gender quota period. z-statistics in parentheses. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *.

The coefficient effect results indicate if females hold their characteristics constant and had the same coefficients as men, their mean sitting fees would be 0.363 log points higher in the post period. Females receive a disproportionately lower salary than males if their coefficients are the same as males on *Log age*, *Tenure*, *Directorships*, and *Foreign*, barring the effect of differences in other coefficients. Further, females' average salary would be higher if they have the same model coefficients as males on *Tenure squared* and *Elite institute,* barring the effect of differences in other coefficients.

Table 4.5 reports a significant *CGP* in terms of sitting fees with a mean compensation gap of 0.191 log points (to the detriment of females) in the pre-period. In the post-period, the average compensation gap is relatively lower, at 0.149. This indicates a marginal reduction in the *CGP* associated with sitting fees after implementing the mandatory gender quota. The results show that the gender gap in the *Log sitting*, both in the pre and post period, is explained by the differences in endowments effect. In other words, the *CGP* in *Log sitting* is significantly explained by the observable characteristics-based differences or the endowment effect.

The results in Table 4.5 indicate that if the individual characteristics of females and males had the same, the average sitting fees of females would be 0.097 log points higher in the pre-period, whereas it would be 0.131 log points higher in the post period. If females and males had the same *Log age* in the pre- quota period, females' mean sitting fees would be 0.068 log points higher. *Log age* has a substantial, quantifiable role in explaining the *CGP* in sitting fees, compared to other independent variables. Further, females' mean sitting fees would be 0.031 log points lower if they are highly qualified as males.

Table 4.5

Blinder-Oaxaca decomposition analyses – Sitting fees

	Pre-quota period			Post-quota period		
VARIABLES	**Log sitting**	**Explained**	**Unexplained**	**Log sitting**	**Explained**	**Unexplained**
Males	11.495***			12.491***		
	(1,152.817)			(1,158.909)		
Females	11.304***			12.342***		
	(259.080)			(496.340)		
Difference	0.191***	0.097**	0.094	0.149***	0.131***	0.018
	(4.267)	(2.203)	(1.644)	(5.496)	(3.938)	(0.468)
Log age		0.068***	0.171		0.080***	0.348
		(3.215)	(0.162)		(5.524)	(0.593)
Tenure		0.049	0.088		0.249***	-0.243**
		(1.486)	(0.619)		(4.942)	(-2.436)
Tenure squared		-0.011	-0.070		-0.136***	0.115**
		(-0.695)	(-1.069)		(-4.431)	(2.421)
Directorships		-0.003	0.080		-0.005*	0.087**
		(-0.821)	(1.312)		(-1.853)	(2.410)
Outsider		0.013	-0.027		0.004	-0.249***
		(1.069)	(-0.261)		(0.663)	(-3.918)
Insider		0.013	0.008		-0.015***	-0.023***
		(0.795)	(0.710)		(-3.052)	(-2.794)
Foreign		0.000	-0.009		0.008**	-0.016**
		(0.176)	(-0.823)		(2.541)	(-2.251)
High education		-0.031***	-0.170***		-0.031***	-0.171***
		(-2.726)	(-3.290)		(-4.933)	(-5.365)

Elite institute	-0.024	0.036	-0.011*	0.034***
	(-1.184)	(1.409)	(-1.916)	(2.937)
Monitoring member	0.012	-0.016	0.005	-0.023
	(1.566)	(-1.224)	(0.982)	(-1.415)
Advising member	0.003	0.001	-0.014***	0.008
	(0.894)	(1.472)	(-3.455)	(1.455)
Monitoring chair	0.006	-0.015**	0.040***	-0.019
	(0.836)	(-2.076)	(5.098)	(-1.488)
Advising chair	0.002	0.001	-0.006*	0.006**
	(0.686)	(1.386)	(-1.935)	(2.130)
Constant		0.209		0.273
		(0.205)		(0.490)
Observations	**9,162**		**10,743**	

Note: This table reports Blinder-Oaxaca decomposition analysis results to examine whether the gender gap in sitting fees varies between the pre and post mandatory gender quota period. z-statistics in parentheses. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *.

Unlike in the pre-quota period, in the post-regulation period, the gender gap in sitting fees is substantially explained by *Tenure*. Similar to the pre-period, the mean sitting fees of females would be higher if they had the same *Log age* as men. Unlike pre-period, the mean sitting fees of females would be higher if they are foreign citizens and chair monitoring committee as men, but it would be lower if they are part of the founding group, highly qualified, graduates of the elite institute, and if they are either a member or chair of advising committee as men. Besides, the mean sitting fees of females would be lower if they had the same *Tenure squared* as men.

Table 4.6 presents the results of Blinder-Oaxaca decomposition analyses of commission-based *CGP* in the pre and post-quota periods. Unlike sitting fee-based *CGP*, there exists no difference in mean commission-based *CGP* in the pre-quota period. However, in the post-quota period, it widens significantly to the detriment of female directors by an average commission gap of 0.462 log points.

We find that 57% of the gender gap associated with the commission stems from the endowment effect, whereas 43% is ascribed to the coefficient effects. Similar to sitting fees, the commission would be higher if they have the same tenure, are independent, are foreign citizens, and chair monitoring committee, and lower if they have the same age, the same number of directorships, are highly qualified, and a member of the advising committee as males. Moreover, females' mean commission would be lower if they had the same *Tenure squared* as males.

Table 4.6

Blinder-Oaxaca decomposition analyses – Commission

VARIABLES	Pre-quota period			Post-quota period		
	Log commission	**Explained**	**Unexplained**	**Log commission**	**Explained**	**Unexplained**
Males	14.222***			14.719***		
	(681.896)			(720.827)		
Females	14.194***			14.257***		
	(192.416)			(355.156)		
Difference	0.028	-0.146**	0.174**	0.462***	0.263***	0.199***
	(0.362)	(-2.024)	(2.037)	(10.257)	(5.303)	(3.282)
Log age		-0.055	2.376		-0.060***	1.505
		(-1.184)	(1.443)		(-2.660)	(1.459)
Tenure		0.335***	-1.096***		0.748***	-1.068***
		(3.754)	(-3.810)		(7.594)	(-5.614)
Tenure squared		-0.340***	0.809***		-0.443***	0.586***
		(-3.687)	(4.327)		(-5.894)	(5.262)
Directorships		0.001	-0.008		-0.023**	-0.061
		(0.158)	(-0.086)		(-2.573)	(-1.018)
Outsider		-0.041	0.042		0.067***	-0.324***
		(-1.185)	(0.344)		(4.001)	(-3.504)
Insider		-0.010	0.173***		0.003	0.184***
		(-0.463)	(4.502)		(0.683)	(5.627)
Foreign		-0.005	-0.018		0.014**	-0.001
		(-0.511)	(-1.123)		(2.271)	(-0.083)
High education		-0.023	-0.071		-0.033**	-0.069

	(-1.489)	(-0.886)	(-2.522)	(-1.287)
Elite institute	-0.001	0.025	0.010	-0.005
	(-0.078)	(0.902)	(1.617)	(-0.289)
Monitoring member	-0.000	-0.002	-0.001	-0.016
	(-0.039)	(-0.127)	(-0.631)	(-0.634)
Advising member	0.000	0.000	-0.027***	-0.007
	(.)	(0.601)	(-3.205)	(-0.668)
Monitoring chair	0.008	-0.017	0.017*	-0.018
	(0.994)	(-1.408)	(1.920)	(-1.031)
Advising chair	0.006	0.001	0.000	0.010*
	(0.772)	(1.332)	(0.046)	(1.673)
Constant		-2.179		-0.727
		(-1.378)		(-0.739)
Observations	**6,253**		**7,250**	

Note: This table reports Blinder-Oaxaca decomposition analysis results to examine whether the gender gap in commission varies between the pre and post mandatory gender quota period. z-statistics in parentheses. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *.

The coefficient effect results indicate if females hold their characteristics constant and had the same coefficients as males, their mean commission would be 0.199 log points higher. Similar to sitting fees, females receive a disproportionately lower commission if they have the same model coefficients as males on *Tenure* and *Outsider*, barring the effect of other coefficients. However, females receive a disproportionately higher commission if they have the same coefficients as males on *Tenure squared, Insider, and Advising chair*. This suggests that the gender gap in commission contributes largely to the widening of *CGP*.

Table 4.7 presents the Blinder-Oaxaca decomposition results of total compensation-based *CGP* in the pre and post mandatory gender quota. Similar to the results in Table 4.6, this is significant only in the post period. This indicates a significant effect of the mandatory gender quota on the *CGP* associated with the directors' total compensation. Out of the 0.646 log points of total compensation-based *CGP*, 59% of the gender gap related to total compensation is explained by the endowment effect, whereas the coefficient effect is associated with 41%.

The endowment effect results indicate that females' average total compensation would be 0.379 log points higher if males and females have the same features. The mean total compensation of females will be higher if they have the same tenure and are independent as males. Similar to the results in Tables 4.5 and 4.6, females' total compensation would be higher if they chair monitoring committees as males. On the other hand, females' mean total compensation would be lower if they have the same number of directorships as males, are highly qualified, members of the advising committee as males, as seen in Tables 4.5 and 4.6. Further, it would be lower if they have the same *Tenure squared* as males.

Table 4.7

Blinder-Oaxaca decomposition analyses – Total compensation

	Pre-quota period			Post-quota period		
VARIABLES	**Log total**	**Explained**	**Unexplained**	**Log total**	**Explained**	**Unexplained**
Males	13.781***			14.532***		
	(704.275)			(803.997)		
Females	13.824***			13.886***		
	(169.025)			(334.342)		
Difference	-0.044	-0.327***	0.283***	0.646***	0.379***	0.267***
	(-0.521)	(-4.270)	(3.004)	(14.259)	(7.804)	(4.729)
Log age		-0.149***	6.974***		-0.018	0.741
		(-3.364)	(4.349)		(-0.912)	(0.830)
Tenure		0.278***	-1.357***		0.899***	-1.345***
		(3.806)	(-5.203)		(11.551)	(-8.383)
Tenure squared		-0.171***	0.715***		-0.484***	0.615***
		(-2.921)	(5.175)		(-8.834)	(7.109)
Directorships		0.002	-0.040		-0.034***	-0.227***
		(0.334)	(-0.380)		(-4.246)	(-4.360)
Outsider		-0.075***	-0.749***		0.092***	-0.700***
		(-2.988)	(-6.606)		(5.957)	(-11.324)
Insider		-0.091**	-0.008		-0.011	-0.038
		(-2.294)	(-0.219)		(-1.375)	(-1.536)
Foreign		0.001	-0.000		0.011**	-0.016*
		(0.300)	(-0.028)		(2.264)	(-1.664)
High education		-0.076***	-0.370***		-0.066***	-0.369***
		(-3.643)	(-4.583)		(-6.021)	(-7.809)

Elite institute	-0.039	0.071*	0.013	0.008
	(-1.349)	(1.843)	(1.458)	(0.474)
Monitoring member	0.003	-0.003	-0.005	-0.039*
	(0.611)	(-0.165)	(-1.513)	(-1.859)
Advising member	0.003	0.003*	-0.029***	-0.005
	(0.699)	(1.825)	(-4.033)	(-0.459)
Monitoring chair	0.004	-0.007	0.022***	-0.019
	(0.795)	(-0.622)	(3.037)	(-1.324)
Advising chair	0.002	0.001	-0.004	0.007
	(0.610)	(0.980)	(-1.044)	(1.380)
Constant		-5.088***		1.475*
		(-3.298)		(1.727)
Observations	**14,037**		**15,983**	

Note: This table reports Blinder-Oaxaca decomposition analysis results to examine whether the gender gap in total compensation varies between the pre and post mandatory gender quota period. z-statistics in parentheses. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *.

The coefficient effect results indicate if females hold their characteristics constant and had the same coefficients as males, their total compensation would be 0.199 log points higher. Females receive a disproportionately higher total compensation if they have the same coefficients as males on *Tenure squared*, barring the effect of differences in other coefficients. Similar to the results in Table 4.5, the average total compensation of females would be higher if their model coefficients are the same as males on the *Insider* and *Advising chair*. On the contrary, females' average total compensation would reduce if their model coefficients are same as males on *Tenure*. Similarly, as seen in Tables 4.5 and 4.6, females' average total compensation would decrease if their model coefficients are the same as males on *Outsider*.

In summary, the results based on Blinder-Oaxaca analyses are consistent with our hypothesis that mandatory gender quota law can have a significant effect on widening the *CGP* of corporate directors.

4.5.2.4 Supply overshoot and CGP

Our final analysis examines the role of supply overshoot on the bargaining power of the new female directors. Table 4.8 reports the empirical model specified in Equation (4), which investigates the effect of supply overshoot resulting from mandatory gender quota on the various forms of director compensation.

$$Compensation_{it} = \alpha_{it} + \beta_0 Gender_i + \beta_1 Rookie\ director_i + \beta_2 Gender_i\ X\ Rookie\ director_i + \beta_3 X_{it} + \varepsilon_{it} \quad (4)$$

Where $Compensation_{it}$ is the various forms of compensation of director i in the year t, defined as *Log salary*, *Log sitting*, *Log commission*, and *Log total*. $Gender_i$ is a dummy variable that takes value 1 for female directors and 0 for male directors. $Rookie\ director_i$ takes value 1 for rookie directors with no prior experience and 0 for non-rookie directors. Our

variable of interest, β_2 captures the effect of supply overshoot on director compensation. X is a vector of control variables, as explained in Section 4.3.3.

The results in Table 4.8 show that *Gender* is insignificant in all three models, except Model 1. Model 1 suggests that females receive a lower salary than males. *Rookie director* is positive and significant, indicating that rookie directors (RFDs and RMDs) receive higher compensation than non-rookie directors, except in Model 3. Despite the supply overshoot in the number of directors, compensation is higher for rookie directors, substantiating their higher bargaining power. Our variable of interest, *Gender X Rookie director*, is negative and significant, except in Models 1 and 2. This result indicates that new female directors receive lower commission and total compensation than non-rookie directors, whereas the supply overshoot does not significantly affect salary and sitting fees. This result aligns with the anecdotal evidence that the gender compensation gap is aggravated due to disproportionately higher commissions received by males than females. The results also suggest that the directors who are higher qualified, graduates of elite institutes, with higher directorships, longer tenure, and those who hold different positions on board committees receive higher compensation.

Overall, our results indicate that a mandatory gender quota has an adverse effect on *CGP*, and an increase in the supply of female directors resulted in reduced bargaining power. In addition to that, disproportionately higher commission paid to male directors persists *CGP*.

Table 4.8

Determinants of director compensation

VARIABLES	(1) Log salary	(1) Log sitting	(2) Log commission	(3) Log total
Gender	-0.232*	0.039	0.023	0.061
	(-1.750)	(0.792)	(0.265)	(0.535)
Rookie director	0.171**	0.399***	0.030	0.205***
	(2.585)	(8.376)	(0.321)	(3.192)
Gender X Rookie director	-0.284	0.003	-0.446***	-0.556***
	(-1.268)	(0.038)	(-3.327)	(-3.600)
Log age	-0.069	0.760***	-0.856***	-0.308*
	(-0.374)	(8.476)	(-4.893)	(-1.782)
Tenure	0.078***	0.054***	0.052***	0.083***
	(6.699)	(9.061)	(5.023)	(7.741)
Tenure squared	-0.002***	-0.001***	-0.000	-0.001***
	(-5.023)	(-6.549)	(-1.175)	(-4.497)
Directorships	0.162***	0.066***	0.024*	0.025
	(3.433)	(7.715)	(1.802)	(1.584)
Outsider	-0.869**	0.118***	-1.451***	-2.292***
	(-2.257)	(3.366)	(-13.898)	(-30.270)
Foreign	0.918***	-0.061	0.218	0.160
	(5.048)	(-0.854)	(1.582)	(1.038)
High education	0.212***	0.062**	0.077	0.126**
	(3.868)	(2.498)	(1.392)	(2.413)
Elite institute	0.320***	0.168***	0.207***	0.265***
	(3.341)	(3.973)	(2.673)	(3.231)
Monitoring member	0.340***	0.701***	0.241***	0.421***

	(3.827)	(23.603)	(5.047)	(9.340)
Advising member	0.475***	0.873***	0.583***	0.999***
	(9.023)	(19.819)	(8.601)	(16.289)
Monitoring chair	-0.293	0.762***	0.356***	0.647***
	(-0.573)	(22.238)	(6.518)	(12.802)
Advising chair	0.209	0.841***	0.603***	0.834***
	(1.251)	(12.723)	(6.294)	(8.865)
ROA	0.009	-0.007**	0.011**	0.019***
	(1.616)	(-2.216)	(2.010)	(3.922)
Log sales	0.105***	0.098***	0.184***	0.182***
	(3.067)	(4.801)	(4.678)	(4.089)
Constant	15.018***	7.327***	16.045***	14.115***
	(18.192)	(18.795)	(20.978)	(18.452)
Observations	9,357	19,905	13,503	30,020
R-squared	0.233	0.293	0.432	0.410
Firm fixed effect	No	No	No	No
Industry fixed effect	Yes	Yes	Yes	Yes

Note: This table reports the pooled OLS regression that examines the effect of supply overshoot on director compensation. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *. Standard errors are clustered at the firm level.

CHAPTER 5

CONCLUSION

The final chapter of the thesis summarizes the research and a discussion of its academic relevance and practical implications. It ends with a note on the limitation and the scope for future research in this area.

5.1 Summary and discussion

CSR spending by firms in most countries is voluntary. One major critique of such voluntary exercise is that it limits and may not help reach desired sustainability goals of firms. This issue is reflected in a recent global corporate survey (Deloitte, 2018). They found that, although managers perceive CSR as an important initiative, they significantly fall short in implementation to their perceived importance level in actual practice. In this context, we try to answer whether CSR spending should be made compulsory through regulation. The answer to this question is not easy as, in almost all countries, CSR spending is not mandated, and it remains voluntary.

We exploit a recent Indian regulator's initiative to mandate CSR spending for companies falling under certain threshold criteria. This exogenous event provides a counterfactual event to establish a causal link between CSR and firm financial performance. Our major conjecture is that any adverse effect of CSR on a firm's financial performance deters them from engaging in CSR spending activities. Hence, mandatory CSR spending is advisable if there is no significant difference in the financial performance between firms that contribute involuntarily (treatment group) and voluntarily (control group) in the post mandatory CSR implementation period. We test this conjecture using DiD estimation for Indian data in the pre and post-mandatory CSR law event. Our results clearly show that the financial performance of both

treatment and control groups are not significantly different in the post-law implementation period. Hence, mandating CSR spending on firms will not have any over and above adverse effect on a firm's financial performance.

We further support our findings by hand collecting individual CSR reports of each affected firm to examine whether there are any systematic differences in the portfolio allocation and spending patterns of voluntary and involuntary firms. Through these reports, we also check whether the extent of managerial involvement and managerial commitment, by spending above the CSR budgeted expenses, have any adverse impact on firm financial performance. We find that the portfolio allocation of voluntary and involuntary firms is similar, and variations in managerial involvement and commitment to CSR initiatives have no significant effect on firm financial performance. Our results thus guide several jurisdictions debating on mandating CSR on firms. In addition to that, our results suggest that such mandatory CSR spending laws have the potential to reduce the gap between perceived importance and actual practice of CSR.

Cognizant of the wide gap in female representation on corporate boards, several countries impose a mandatory gender quota to increase female representation. This move helped in narrowing the representation-based gender gap in corporate boards. However, it is unclear whether reducing the representation-based gender gap reduces the compensation-based gender gap. In this study, we investigate the effect of gender quotas on the compensation-based gender gap.

We hypothesize that the gender quota can widen the compensation-based gender gap due to either supply overshoot or shortage. Supply overshoot reduces female directors' bargaining power, as many inexperienced female directors get absorbed into corporate director roles with lower compensation. In contrast, supply shortage increases the demand for NRFDs'

directorships without changing the director talent pool. Hence, the reduction of the gender compensation gap will be temporary.

We test our conjecture using the Indian corporate market that has undergone a mandatory gender quota. Using Blinder-Oaxaca decomposition analysis, we show that the compensation-based gender gap did not exist in the pre mandatory gender quota period. However, it significantly widened in the post mandatory gender quota period. Our result shows that the gender compensation gap is aggravated by the differences in directors' salaries and commissions. Male directors receive disproportionately higher salaries and commissions compared to female directors. In addition, our results show that the widening of the gender compensation gap is mainly driven by supply overshoot relating to inexperienced rookie directors. Further, we show that all else equal, compared to RFDs, RMDs receive higher compensation on average. Hence, our study calls for a more holistic approach to addressing the gender gap in corporate boards.

5.2 Academic relevance

The current study contributes to the existing academic literature in several ways. First, our study on mandatory CSR spending law joins other studies that examine and try to understand the relationship between CSR spending and firm performance (Flammer, 2015a; Flammer & Bansal, 2017; Garcia-Castro et al., 2010; Harjoto & Jo, 2011; Shen & Chang, 2009). It assesses the effect of change in the regulatory environment on CSR on firm financial performance. Prior studies largely focus on quantifying the causal effect of CSR spending on firm financial performance and have mostly regressed measures of firm value on CSR indices to conclude on the effect of social and environmental activism. The estimates obtained from these studies are likely to be biased upwards or downwards as CSR engagement is not random. The limited number of studies under the mandatory regulatory regime also suffers from limitations in terms

of data and extent of analyses. Our study provides a comprehensive analysis to understand the financial performance effect of the shift in the regulatory environment on CSR spending from a voluntary to a mandatory regime. Our study extends the literature by addressing the potential endogeneity problem with a cleaner counterfactual sample and brings richer data that captures the nature, method, and intent of CSR spending by firms. More importantly, our study contributes to the debate on keeping CSR spending as corporate managers' voluntary decision.

Several studies empirically test the CSR-CFP relationship utilizing the exogenous event created by the implementation of the mandatory CSR spending law. However, the results of these studies should be interpreted cautiously due to limitations in terms of the sample and time period considered. Our study covers a larger sample and both pre and post periods of mandatory CSR spending law implementation. We add to the CSR literature by providing a comprehensive analysis of the project-wise CSR spending of firms.

Our study on mandatory board gender quota law investigates the role of mandatory laws aimed at gender diversity in corporate boards from a developing country perspective where distinctively different socio-political and labor force demographics exist. Our study contributes to the broader literature on mandatory gender quotas, gender inequality in senior management positions, and gender inequality in compensation. Moreover, our study contributes to an emerging research area of Equity and Diversity in Finance (Linnenluecke et al., 2016, 2017). The results support our conjecture that the current push for board gender diversity can widen *CGP*, even when *RGP* narrows. To comply with the mandatory gender quota, Indian companies appointed female directors with similar educational qualifications, however, the gender pay gap persists given the gender segregation in the labor market. This result contributes to the literature that emphasizes the gender pay differences in higher echelons of corporate hierarchy, (Rebérioux & Roudaut, 2019; Bertrand et al. 2019) and provides the first evidence from an

emerging country context in the light of a mandatory gender quota law. Further, as suggested by Fortin (2019), understanding the sources of *CGP* is essential to devise policies that achieve greater effectiveness towards the goal of shrinking that gap.

5.3 Practical implications

The results of the study have multiple practical implications for financial market regulators. One major implication of our results is that the regulator's aggressive decision to force firms on CSR spending did not yield any dramatic adverse effect on forced firms' financial performance. On the contrary, such a bold move can reduce the gap between perceived importance and practiced CSR. The results of the study can act as a catalyst to encourage more regulators across the world to introduce similar regulations.

Enactment of a gender quota forces firms to appoint board members who would not find their place in the board otherwise, leading to strong implications with respect to board composition and functioning. This is an effort in which the developed countries have taken the lead, the success and unforeseen effects of the same in breaking the glass ceiling for women in developed and developing countries can motivate other nations to enforce such regulatory moves with more care. In summary, our study calls for more understanding of the possible adverse spill-over effects associated with governments' strong push for *RGP* in several countries. In other words, our study also calls for a more holistic approach to addressing the gender gap in corporate boards.

5.4 Limitations and future scope of research

The CG regulations are evolving in India like in any other country. Apart from the enactment of the mandatory CSR spending law, the efforts of regulators' to make the business accountable to the shareholders and stakeholders are continuing. Based on market capitalization, the top

500 listed firms are required to file BRRs from the financial year 2015-16 onwards. This is further extended to the top 1,000 listed companies by market capitalization in December 2019, effective from the financial year 2019-2020. In March 2019, MCA released the 'National Guidelines for Responsible Business Conduct' (NGRBCs), which is an update of NVGs issued in 2011. Similarly, the board gender quota law is evolving, with SEBI mandating at least one-woman independent director by March 2020. Future studies can consider incorporating these regulatory changes. Further, the generalization of the results of this study is limited as it is specific to the two CG regulations enacted in India. Cultural differences can be investigated by replicating the study in other countries. Future studies can also explore other dimensions of women directors' prior experiences, for instance, board experience, functional background, and firm tenure to throw light on how these differences influence CGP.

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Appendix 1: Definitions and dimensions of CSR

Source	Definition	Dimensions
Commission of the European Cmmunities, 2001	A concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis	Voluntariness Stakeholder Social Environmental Economic
World Business Council for Sustainable Development, 1999	The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life	Stakeholder Social Economic
World Business Council for Sustainable Development, 2000	Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large	Voluntariness Stakeholder Social Economic
Commission of the European Communities, 2001	Corporate social responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment	Voluntariness Social Environmental
Business for Social Responsibility, 2000	Business decision making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment	Voluntariness Stakeholder Social Environmental
Business for Social Responsibility, 2000	Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Social responsibility is a guiding principle for every decision made and in every area of a business	Voluntariness Stakeholder Economic
IBLF, 2003	Open and transparent business practices based on ethical values and respect for employees, communities and the environment, which will contribute to sustainable business success	Voluntariness Stakeholder Social Environmental Economic
Khoury et al., 1999	Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach employee relations, creation and maintenance of employment, environmental stewardship and financial performance	Stakeholder Social Environmental Economic
Business for Social Responsibility, 2003b	Corporate social responsibility is achieving commercial success in ways that honour ethical	Voluntariness Stakeholder Social

	values and respect people, communities and the natural environment	Environmental Economic
Commission of the European Communities, 2003	CSR is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.	Voluntariness Stakeholder Social Economic
CSRwire, 2003	CSR is defined as the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees and the environment are reflected in the company's policies and actions	Voluntariness Stakeholder Environmental Economic
Hopkins, 1998	Corporate social responsibility is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation	Voluntariness Stakeholder Social
Ethics in Action Awards, 2003	CSR is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit.	Stakeholder Social Environmental Economic
Jones, 1980	CSR is defined as the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract, indicating that a stake may go beyond mere ownership	Voluntariness Stakeholder
Hopkins, 2003	CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation	Voluntariness Stakeholder Social Economic
Marsden, 2001	CSR is about the core behaviour of companies and the responsibility for their total impact on the	Social Environmental

	societies in which they operate. CSR is not an optional add-on	Economic
McWilliams and Siegel, 2001	Actions that appear to further some social good, beyond the interests of the firm and that which is required by law	Voluntariness Social
Global Corporate Social Responsibility Policies Project, 2003	Global corporate social responsibility can be defined as business practices based on ethical values and respect for workers, communities and the environment	Voluntariness Stakeholder Social Environmental Economic
Commission of the European Communities, 2002	Corporate social responsibility is about companies having responsibilities and taking actions beyond their legal obligations and economic/business aims. These wider responsibilities cover a range of areas but are frequently summed up as social and environmental – where social means society broadly defined, rather than simply social policy issues. This can be summed up as the triple bottom line approach: i.e. economic, social and environmental	Stakeholder Social Environmental Economic
Pinney, 2001	CSR or corporate citizenship can most simply be defined as a set of management practices that ensure the company minimizes the negative impacts of its operations on society while maximizing its positive impacts	Social
IndianNGOs.com, 2003	Corporate social responsibility is a business process wherein the institution and the individuals within are sensitive and careful about the direct and indirect effect of their work on internal and external communities, nature and the outside world	Stakeholder Social Environmental Economic
Business for Social Responsibility, 2003a	Socially responsible business practices strengthen corporate accountability, respecting ethical values and in the interests of all stakeholders. Responsible business practices respect and preserve the natural environment. Helping to improve the quality and opportunities of life, they empower people and invest in communities where a business operates.	Voluntariness Stakeholder Social Environmental Economic
Kilcullen and Kooistra, 1999	CSR is the degree of moral obligation that may be ascribed to corporations beyond simple obedience to the laws of the state	Voluntariness
Piacentini et al., 2000	CSR is the voluntary assumption by companies of responsibilities beyond purely economic and legal responsibilities	Voluntariness
UK Government, 2001	CSR recognizes that the private sector's wider commercial interests require it to manage its impact on society and the environment in the widest sense. This requires it to establish an appropriate dialogue or partnership with relevant stakeholders, be they employees, customers, investors, suppliers or	Voluntariness Stakeholder Social Environmental Economic

	communities. CSR goes beyond legal obligations, involving voluntary, private sector-led engagement, which reflects the piorities and characteristics of each business, as well as sectoral and local factors	
Woodward-Clyde, 1999	CSR has been defined as a 'contract' between society and business wherein a community grants a company a license to operate and in return the matter meets certain obligations and behaves in an acceptable manner	Stakeholder
Reder, 1994	An all encompassing notion, [corporate] social responsibility refers to both the way a company conducts its internal operations, including the way it treats its workforce and its impact on the world around it	Stakeholder Social Environmental
Lea, 2002	CSR can be roughly defined as the integration of social and environmental concerns in business operations, including dealings with stakeholders	Stakeholder Social Environmental Economic
Lea, 2002	CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment	Voluntariness Stakeholder Social Environmental
Foran, 2001	CSR can be defined as the set of practices and behaviours that firms adopt towards their labor force, towards the environment in which their operations are embedded, towards authority and towards civil society	Stakeholder Social Environmental
Andersen, 2003	We define CSR broadly to be about extending the immediate interest from oneself to include one's fellow citizens and the society one is living in and is a part of today, acting with respect for the future generation and nature	Stakeholder Social Environmental
Frederick et al. 1992	Corporate social responsibility can be defined as a principle stating that corporations should be accountable for the effects of any of their actions on their community and environment	Stakeholder Social Environmental
Van Marrewijk, 2003	In general, corporate sustainability and CSR refer to company activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders	Voluntariness Stakeholder Social Environmental Economic

Van Marrewijk, 2001	Companies with a CSR strategy integrate social and environmental concerns in their business operations and in their interactions with their stakeholders and demonstrate openly their triple performances	Stakeholder Social Environmental Economic
Jackson and Hawker, 2001	Corporate social responsibility is how you treat your employees and all your stakeholders and the environment	Stakeholder Social Environmental
Strategis, 2003	CSR is generally seen as the business contribution to sustainable development, which has been defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, and is generally understood as focussing on how to achieve the integration of economic, environmental and social imperatives	Social Environmental Economic

Source: Dahlsrud (2008)

Appendix 2: Comparative analysis between Indian Labor Market vs. France and Norway

Unlike France and Norway, which rank at the top in the Global Gender Gap Index (2nd and 15th, respectively), our study looks at India, which is ranked as one of the worst in terms of the gender gap at 112 (out of 153) in the Gender Gap Index[21]. In France and Norway, females are almost equal to males in labor force participation (89.1% and 94.9%, respectively), whereas only 30.4% in India. The fact that females are persistently less present in the labor market than males contributes to the Economic Participation and Opportunity gap (one of four components in the WEF Gender Gap Index (GGI)), which runs particularly deep in India, given the nation finds its place in the bottom five in this sub-index. Thus, we argue that, unlike the other two nations, the labor market in India, like many other developing nations, is highly segregated in terms of gender. Similarly, there is a noticeable gap in terms of corporate board representation of females. For instance, in India, females occupy only 13.8% of corporate board seats, whereas, in France and Norway, it is 43.4% and 42.1%, respectively. Most importantly, the board gender quota in these countries differs from India, as it mandates the appointment of 40% representation from each gender. On the other hand, the gender quota law in India mandates the appointment of at least one female, which is less than 10% of the average number of directors in an Indian corporate board[22].

[21] http://reports.weforum.org/global-gender-gap-report-2020

[22] https://www.spencerstuart.com/research-and-insight/boards-around-the-world?category=all-board-composition&topic=board-size

Appendix 3: Sample CSR Report

Sr. No.	CSR Project or Activity identified	Sector in which the project is covered	Projects or programs 1) Local area or other 2) Specify the State and district where projects or programs were undertaken	Amount Outlay (budget) project or programs wise (For FY 2016-17)	Amount spent on the projects or programs SUB-HEADS: 1) Direct expenditure on projects or programs 2) Overheads	Cumulative expenditure upto the reporting period	Amount spent: Direct or through implementing agency
1	Annadan Activity	Eradicating hunger, poverty and malnutrition	MP, CG, Gujarat, Jharkhand, Chandigarh, Haryana, Punjab, Himachal, Maharashtra, Rajasthan, Delhi and NCR	28,801	28,801	18,17,845	Direct
2	Mission Shiksha	Promoting education	Same as Sr. No. 1 above	31,01,738	31,01,738	4,72,67,263	Direct
3	Funeral Facilities at Muktidham	Ensuring environmental sustainability and protection of flora and fauna	Madhya Pradesh, Bhopal District	3,10,932	3,10,932	21,34,769	Direct
4	Plantation	Protection of flora and fauna	Same as Sr. No. 1 above	4,41,525	4,41,525	20,65,309	Direct
5	Professional Fee for CSR Consultant	Expenses on CSR capability building	Madhya Pradesh, Bhopal District.	30,000	30,000	4,72,133	Direct
6	Jal Satyagrah	Ensuring Environmental Sustainability	Madhya Pradesh, Bhopal District.	2,89,130	2,89,130	15,13,910	Direct
7	Save Bird Campaign	Animal Welfare	Same as Sr. No. 1 above	-	-	17,48,634	Direct
8	Senior Citizen Day Care Center	Old age homes, day care centers and such other facilities for senior citizens	Madhya Pradesh, Bhopal District	-	-	3,91,603	Direct
9	J&K Flood Victims	Eradicating hunger, poverty and malnutrition	Same as Sr. No. 1 above and Jammu & Kashmir	-	-	7,93,809	Direct
10	Vastradan Event	Eradicating hunger, poverty and malnutrition	Same as Sr. No. 1 above	-	-	3,09,283	Direct
11	Health Care Activity	Promoting preventive health care	Same asr Sr. No. 1 above	1,57,660	1,57,660	3,57,660	Direct
12	Power of No (Empowering Women)	Empowering Woman	Same as Sr. No. 1 above	-	-	1,52,71,140	Direct
13	Zidd Karo - Girl Child Education	Promoting Education	Same as Sr. No. 1 above	5,20,69,905	5,20,69,905	6,03,55,425	Direct
14	Underprivileged Girl Child Education	Promoting Education	Madhya Pradesh, Bhopal District.	30,00,000	30,00,000	42,00,000	Direct
15	Salaries and Expenses for CSR Team	Employee Cost	Same as Sr. No. 1 above	16,33,620	16,33,620	54,62,026	Direct
16	Army Welfare fund	Measures for the benefit of armed forces veterans, war widows and their dependents	Madhya Pradesh, Bhopal District.	11,00,000	11,00,000	11,00,000	Direct
17	Goushala Sanrakshan	Animal Welfare	Madhya Pradesh, Bhopal District.	10,00,000	10,00,000	10,00,000	Direct
18	Mitti Ke Ganesh	Ensuring Environmental Sustainability	Same as Sr. No. 1 above	23,570	23,570	23,570	Direct
19	Vanvihar Environmental Sustainability	Ensuring Environmental Sustainability	Madhya Pradesh, Bhopal District.	3,97,239	3,97,239	3,97,239	Direct
20	Rural Development Program	Rural Development Projects	Madhya Pradesh, Bhopal District.	1,00,00,000	1,00,00,000	1,00,00,000	Through implementing agency [viz. Dwarka Prasad Agarwal Charitable Trust, Bhopal]
	Total			**7,35,84,120**	**7,35,84,120**	**15,66,81,618**	

Source: Annual report of D B Corp Ltd. 2017

Pacific-Basin Finance Journal 73 (2022) 101741

Contents lists available at ScienceDirect

Pacific-Basin Finance Journal

journal homepage: www.elsevier.com/locate/pacfin

On the side effects of mandatory gender diversity laws in corporate boards

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ARTICLE INFO

JEL codes:
J16
G34
J31
J71
J78
M12

Keywords:
Blinder-Oaxaca decomposition
Corporate governance
Executive compensation
Gender discrimination
Gender quota
Wage discrimination

ABSTRACT

Regulators around the world are pushing for a higher representation of females on corporate boards. While this move reduces the representation-based gender gap (*RGP*), less is known how this may affect the *compensation-based gender gap (CGP)*. Using 56,976 director-year observations around the mandatory gender quota law imposed in the Indian market, we find that a significant reduction of *RGP* in the post-gender quota law period comes at the cost of a substantial increase in *CGP*. Our compensation decomposition analyses indicate that *CGP* in the corporate directors' labour market is driven by disproportionately higher salaries and commissions paid to male directors. Overall, our results suggest a more holistic approach to address the gender gap in corporate boards.

1. Introduction

Despite females constituting half of the world population, gender equality in labour force participation remains a challenge across the globe (ILO, 2019). This gap further widens at the upper echelons of the corporate world (Gabaldon et al., 2016). Females face a glass ceiling when they climb the upper echelons in the corporate structure. Although females make up almost half of the entry-level workforce, they hold only about a third of manager-level roles and less than a quarter of C-suite positions.[1] To address this glass ceiling, proactive measures are being taken by governments in the form of policy interventions across the world. Starting with Norway, in 2003, several governments enacted mandatory gender quota laws for reducing the persistent gap in female representation on the corporate boards.[2]

The board gender quota primarily aims to reduce the *representation-based gender gap* (*RGP*) and *compensation-based gender gap* (*CGP*) in senior management positions (Bertrand et al., 2019). Recent evidence shows that board-level mandatory gender quotas are successful in breaking the glass ceiling at the top of the corporate hierarchy, to some extent, thus reducing the representation-based gender gap – *RGP* (Rebérioux and Roudaut, 2019; Yang et al., 2019). However, gender parity in pay seems hard to achieve. The World

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[1] https://leanin.org/about-the-women-in-the-workplace-report

[2] Appendix A presents a summary of the specific characteristics of board gender quota laws across the world.

https://doi.org/10.1016/j.pacfin.2022.101741
Received 2 October 2021; Received in revised form 11 January 2022; Accepted 1 March 2022
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The Efficacy of involuntary corporate governance regulations

by Salu V Prasad

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