Director Expertise and Compliance to Corporate Social Responsibility Regulations

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Abstract

We study compliance of Indian companies to the 2013 Corporate Social Responsibility (CSR) regulation that mandates qualifying companies to spend 2 percent of the pre-tax profits on CSR. We demonstrate that the formation of CSR committees and the appointment of directors with relevant experience (CSR-Directors) increase firms' compliance to the CSR law. Further, we show that CSR-Directors improve compliance by implementing a cost-effective CSR strategy by reducing the number and geographic spread of CSR projects. CSR directors are more likely to implement a cost-effective CSR strategy for companies in more competitive industries, companies with high debt, and companies with no previous history of CSR. Companies with higher CSR compliance gain in value and have increased creditworthiness.

Key Words: Director Expertise, CSR Committees, CSR Law, CSR Strategy

JEL Classification: G34, G39, L14, L25, Q50

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1. Introduction

Corporations are facing increasing stakeholder pressure to be socially responsible. For example, the Davos Manifesto 2020 proposes that corporations shift away from a shareholder capitalism paradigm to a stakeholder capitalism paradigm. In keeping with the pressure, companies have increased their Corporate Social Responsibility (CSR) expenses in recent times (Hong, Kubik, and Scheinman, 2012). The emergent debate is about how to incentivize corporations to be socially responsible. Recently, the European Commission published a study proposing a framework for sustainable corporate governance for European Union companies (European Commission, 2020). [1] Institutional Shareholder Services (ISS) also proposes to add board oversight of environmental and social risks in the US shareholder voting policy changes from 2021.[2]

It is striking that despite the academic debate and the increasing stakeholder focus on CSR, the mainstream corporate sustainability literature provides very little causal evidence on the role of corporate governance, specifically corporate board characteristics, in corporate social responsibility practices of companies[3]. Ultimately, the board is formally responsible for corporate CSR strategy (Adams, Hermalin and Weisbach, 2010; Ferrell, Liang, and Renneboog, 2016; Cheng, Ioannou and Serafeim, 2014). Companies in the United States has recently started appointing CSR Executives, and the European Committee study on sustainable corporate governance proposes the appointment of sustainability experts on corporate boards (Gupta, Fung, and Murphy, 2020; Fu et al. 2020). Further, given the increasing regulation on social responsibility of companies, there is very little evidence on compliance of companies to such regulations (Chen, Hung and Wang, 2018). Many core corporate governance functions - the oversight and control of internal processes - are increasingly subsumed by compliance requirements (Griffith, 2016).

Three challenges confront empirical research on the role of corporate governance in CSR. First, corporate governance is a multi-dimensional concept, and it is not straightforward to theorize about specific aspects of governance that should be accountable for CSR. Second, there is usually no generally accepted definition of CSR that allows an objective comparison of CSR activities across companies. CSR disclosures are often extensive but not necessarily quantifiable or correlated with

[1] The European Commission report identifies possible actions to create an EU level sustainable company law and corporate governance framework.
[2] The ISS proposal explicitly specifies ISS will hold individual directors, committee members or the whole board accountable for lack of oversight of social and environmental risks.
[3] Some studies provides descriptive evidence on the role of corporate governance and corporate social responsibility (Jo and Harjoto, 2011; Chan et al. 2014).

actual expenses (Crilly and Ioannou, 2017). Finally, the association of CSR, corporate governance and firm value are fraught with endogeneity problems. Companies do not undertake CSR at random, and unobservable characteristics can co-determine both corporate governance choices of companies and CSR.

In this paper, we use a novel setting of a mandatory CSR law in India to examine if expertise of the corporate board matter for CSR. This setting, as discussed below, allows us to overcome the three empirical challenges discussed above and provide a range of evidence that is missing from the literature. Specifically, we focus on one specific aspect of corporate boards, i.e., the presence of CSR committees and the appointment of directors with specific expertise in corporate social responsibility and sustainability (hereafter referred to as CSR-Directors)[4] in publicly listed Indian companies. First, the law holds the CSR committees accountable for CSR outcomes in terms of legally defined CSR expenses, which gives us a lens to demonstrate the effect of the committee composition on CSR outcomes. Second, the legal definition of CSR in India provides a homogeneous basis to compare CSR expenses across companies. Finally, we address the endogenous association of CSR and corporate governance by using the variation in the industry-level supply of CSR directors. Thereby, we provide causal evidence that director expertise positively affects compliance with the CSR law. Additionally, we also provide evidence on the channels through which director expertise affects CSR compliance and the firm-value effects of CSR compliance.

In 2013, India became the first country in the world to legally mandate all companies above certain thresholds of size and profitability to spend 2 percent of the pre-tax profit on corporate social responsibility (CSR). Section 135 of the Companies Act, commonly known as the CSR Law that came into effect from April 1, 2014, was first introduced on a comply or explain basis[5]. Section 135 does not define Corporate Social Responsibility but highlights specific expenses or schedules that will be considered CSR expenses[6]. The compliance requirement is that the total expenses through the Schedules should sum up to 2 percent of the pre-tax profit. An advantage of this setting is that it allows us to use comparable CSR expenses across companies.

[4] A full description of how we classify CSR directors is provided in appendix A.

[5] Non-compliance penalties were added in the 2019 update of the Companies Act. If the unspent prescribed amount is related to any ongoing projects, it shall be transferred to a special account set by the company and be spent according to CSR policy within three financial years from the date of transfer. Failing to do so, the entire amount shall be transferred to an escrow account. Failing to do so, the company will be fined up to INR 2.5 million (USD 348,000), and every company officer may face up to three years of imprisonment and/or a fine up to INR 0.5 million (USD 6802).

[6] Each schedule is a priority area like poverty alleviation, gender equality, environmental sustainability, etc. A detailed overview of the schedules is discussed in section 2a.

The introduction of the CSR law had a significant impact: the fraction of Indian companies engaging in CSR increased, and companies for whom the law applied suffered a loss in shareholder value (Manchiraju and Rajgopal, 2017). A second unique feature of Section 135 is that it requires companies to form CSR committees. These committees are responsible for forming the CSR strategies of companies, including the amount and type of CSR spending, and monitoring the implementation of the CSR projects. It is the first institutional requirement of a governance mechanism for CSR, akin to the Sarbanes Oxley Act's mandate for US companies to set up audit committees (Defond et al. 2005). However, unlike the Sarbanes Oxley Act, Section 135 does not specify any requirements of director expertise in the CSR committees[7]. It only requires that the CSR committees be composed of at least three directors, one of whom should be an independent director. However, there is no legal requirement for the expertise of the members of the CSR committee. The lack of legal requirement to appoint expert directors presents us the opportunity to examine the strategic outcomes for companies that choose to appoint them. Indeed, we only see 59 percent of sample firms appointing CSR directors.

In this paper, we focus on the factors that predict the appointment of CSR-Directors. The expertise of these CSR-Directors can be valuable for compliance with the CSR law by lowering the information costs (Conference Board, 2020). These information costs arise from selecting and implementing CSR projects, either directly by the companies or through implementation agencies. There are potential costs related to the search and evaluation of viable CSR projects, identification of implementation agencies, the phased rollout that many projects require, and the process for legal approval. Additionally, there are direct costs of implementing CSR projects. The informational advantage from appointing CSR-Directors can put a company in a better position to evaluate the CSR strategies and estimate the cost of compliance to the CSR law. We use textual analysis of the career history of non-executive directors to identify 976 CSR-Directors (8.8 percent of all non-executive directors in the sample), 273 of whom are appointed to the CSR committees. We find that CSR-Directors are more likely to be present in large, more profitable companies, companies with no pre-Section 135 CSR expenses, and consumer-focused companies.

Using the information on CSR expenses and financial data of Indian companies from Prowess, we show that CSR directors' presence in CSR committees has a statistically significant positive effect on CSR compliance. Companies with CSR-Directors spend 79 percent of their mandated CSR budget,

[7] The law also does not prevent the CEO from being a member of the CSR committees.

whereas companies without CSR directors spend 61 percent[8]. However, the association between CSR-Directors and compliance is likely to be endogenous. Unobservable characteristics – such as managerial preferences and company culture – can simultaneously determine the appointments and CSR expenses. We address these endogeneity concerns by employing an instrumental variable strategy.

Identification strategies are complicated by the endogeneous decisions in board appointments. We argue that the appointment of CSR-Directors is affected by the search cost of appointing them. A higher industry supply of CSR-Directors prior to Section 135 will lower the search cost of companies in that industry for such experts[9]. Giannetti and Wang (2020) shows that companies tend to appoint directors from within the industry. Therefore a higher industry supply will increase the likelihood of appointing CSR-Directors. However, the industry supply of CSR-Directors is unlikely to affect company-level CSR outcomes directly, except through their appointment in the CSR committees[10]. This approach has been used to address endogeneity concerns in board appointments (Dass et al., 2014). The instrumental variable is positively correlated with the likelihood of appointing CSR directors, and it passes the statistical test for weak instruments (first stage F-statistic = 12.17). Using this identification strategy, we demonstrate that the appointment of CSR-Directors is associated with higher CSR compliance. The effect is statistically significant and economically meaningful: average CSR compliance is higher by 11 percent in the years following the appointment of CSR-Directors compared to the preceding years.

Further, we use detailed information on Schedule-wise and state-wise CSR expenses of companies from the Indian Ministry of Corporate Affairs to explore the mechanism through which CSR-Directors affect compliance. We show causal evidence that companies that appoint CSR directors tend to use two fewer schedules to spend their CSR budget. These companies also have CSR projects in three fewer states than companies that do not appoint these directors. As discussed before, the cost of compliance in this context is not only the nominal value of the CSR expenses but includes search, evaluation and implementation costs. These additional compliance costs increase with the diversification of the CSR-projects portfolio, but Section 135 does not allow the cost of compliance to be counted towards compliance. Therefore, our results indicate that the appointment of CSR-

[8] The compliance rate is lower than 100 percent because our sample period overlaps with the "comply or explain" phase of the CSR law.
[9] By estimating the supply of CSR-Directors prior to the law, we mitigate concerns of endogenous entry of people with CSR expertise in the directorial labor market.
[10] It is possible that prior supply of CSR-Directors in an industry group is non-random. We address this issue by using industry-fixed effects in the instrumental variable regressions.

Directors is associated with a lower cost of compliance through implementing a less-diverse CSR portfolio. Moreover, the effect of CSR-Directors on the number of schedules and the geographic spread is more pronounced for companies for which cost-efficiency is strategically important – companies with no previous experience of engaging in CSR, companies in highly competitive industries and companies with higher debt[11]. For these companies, CSR directors reduce the informational and implementation costs of compliance.

Finally, we examine the direct and indirect benefits of CSR compliance to Indian companies. We estimate the firm-value effects, the change in access to financing of companies with higher compliance with the CSR regulation, and the changes in institutional ownership patterns. Although Manchiraju and Rajgopal (2017) show that Indian companies affected by the CSR law lost value, we show that companies with CSR-Directors that have high compliance to the law gain in value compared to low compliance companies. Higher valuation for firms with better corporate governance practices and compliance is consistent with other emerging markets (Black, Kim and Jang, 2006). These companies were also more likely to have their credit ratings upgraded. Finally, we show statistically significant gains in institutional ownership - particularly foreign institutional ownership- for companies that appoint CSR-Directors. Together, these results suggest that CSR directors facilitate CSR compliance to increase shareholder value and enhance access to external capital.

We make four contributions to the literature. First, we contribute to the extensive literature on corporate social responsibility (Krueger, 2015; Brown et al., 2006). This literature primarily focuses on the effect of CSR on shareholder wealth, but much less is known about the role of corporate boards in that context, except for some studies that report correlations (Jo and Harjoto, 2011; Chan et al., 2014). In a contemporaneous paper closely related to ours, Iliev and Roth (2020) show that the corporate board has a substantial impact on the CSR practices of US companies. They address the endogenous association of board characteristics and CSR performance by exploiting connections of US directors with overseas companies that are affected by a sustainability regulatory change. However, the mechanism through which these interlocked directors affect CSR outcomes and whether individual directors' matter for CSR strategies remains an open question. Our contribution is that we demonstrate that CSR committees and directors expertise in corporate social responsibility and sustainability positively affect CSR expenses and legal compliance of Indian companies.

[11] An alternative explanation is that having a less diverse portfolio indicates managerial empire building and spending more on CSR indicates agency costs. While these arguments can explain our results in the absence of a CSR regulation when managers voluntarily spend on corporate philanthropy. In our setting of the CSR law, with a target spending and the exclusion of cost of compliance from the target spending, these specific agency concerns are minimal.

Second, we contribute to the nascent literature on corporate compliance to CSR regulations. Given the importance of country-level laws and institutions in studying corporate strategies, it is essential to examine the effects of CSR regulations at the country level (Liang and Renneboog, 2017). Chen, Hung, and Wang (2018) show that Chinese companies affected by mandatory CSR reporting regulations experience a decrease in profitability. Dharmapala and Khanna (2018) and Manchiraju and Rajagopal (2017) provide similar evidence on the adverse shareholder-value effects of Indian CSR law on the affected companies. The critical insight from our study is that director expertise in CSR can increase compliance and lower the cost of compliance to the CSR law. The lower compliance cost is likely to mitigate the detrimental effect on shareholders wealth. Our results also contribute to the debate about the EU recommendation of appointing sustainability experts on the boards of listed companies (European Commission, 2020).

Third, we add to the literature on director expertise and board committees. A stylized result from this literature is that the directors' relevant expertise positively affects governance and company outcomes. Relevant expertise of directors is positively associated with the functioning of the audit, nomination and compensation committees (Wang, Xie, and Zhu 2015; Krishnan, Wen, and Zhao 2011; Defond et al. 2005). The effect of director expertise is particularly pronounced when the regulatory environment is complex (Dass, Kini, Nanda, Onal, and Wang, 2014; Coles, Daniel and Naveen, 2008). There is very little evidence on CSR committees, primarily because they are still uncommon in the Anglo-American context (Kolev et al., 2019). We add to this literature by showing the effect of director expertise in CSR committees on CSR compliance and strategy. We also show that the effectiveness of CSR committees is affected by the portfolio of skills within that committee. In that regard, our paper builds on the findings of Adams, Akyol and Verwijmeren (2018) on complementary skills on the board.

Finally, our paper contributes to the extensive literature on the effect of CSR on corporate outcomes. The portfolio of stocks comprising CSR active companies outperform similar portfolios comprising of stocks of weak CSR companies (Edmans, 2011). Investors also react to CSR news of companies, but voluntary social initiatives often have adverse effects on shareholder wealth (Krueger, 2015; Fisher-Vanden and Thorburn, 2011). The value-gain for CSR-active companies stems from a lower cost of capital, increased brand loyalty and a more productive workforce (El Ghoul, Guedhami, Kwok and Mishra, 2011; Maxwell. Lyon and Hackett, 2000). The key distinction of this paper is that we show that companies with higher compliance with legal CSR targets gain in value and have better access to

the capital market. While voluntary socially responsible initiatives are often value-reducing, complying with a CSR law increases firm value.

2. Institutional Background and Conceptual Framework

2.1 Section 135 of the Indian Companies Act and CSR Committees

India was the first country to regulate CSR spending in 2013 vides Section 135 of the modified Companies Act. The act was effective from the financial year April 2014 – March 2015 on a "comply-or-explain" basis. The legislation applies to all companies operating in India, whether public, private, or foreign-owned. Section 135 applies only to companies that meet or exceed at least one of the three threshold criteria in the immediately preceding fiscal year. The companies will have to spend a minimum of two per cent of their average pre-tax profits on CSR.[12] The criteria are as follows: net worth of INR 5 billion (approximately US$ 69 million), turnover of INR 10 billion (approximately US$ 149 million), or net profit of INR 50 million (approximately US$ 695,000). Section 135 does not define the concept of CSR but highlights specific activities through which the mandated amount should be spent (Dharmapala & Khanna, 2018). It also explicitly sets out the expenses that will not be considered as CSR expenses for compliance purposes. For example, expenses for fostering employee engagements cannot be counted as CSR; neither can the cost of implementation of CSR projects. Similarly, expenses on CSR activities outside India cannot count towards legal compliance, and companies are encouraged to engage in CSR activities around their headquarters.

Section 135 considers expenses in ten broadly defined categories (which are called Schedules) as CSR activities: : (i) eradicate hunger, poverty, and malnutrition; (ii) promote education, special education, and employment enhancing vocation skills; (iii) promote gender equality and empowering women; (iv) ensuring environmental sustainability and ecological balance; (v) protection of national heritage, art, and culture; (vi) measures for the benefit of armed forces veterans, war widows, and their dependents;(vii) training to promote rural sports, nationally recognized sports, Paralympic sports, and Olympic sports; (viii) contribution to the prime minister's national relief fund or any other fund set up by the central government; (ix) rural development projects; (x) slum area development (The Companies Act, 2013).

[12] The net profit is calculated as the moving average of the three preceding fiscal years or the number of preceding year(s) for which financial accounts are available, if the company has not been incorporated for three years.

An additional requirement for companies affected by Section 135 is to establish a CSR committee. Many countries have instituted regulations on corporate sustainability, but one critical omission is that these regulations do not explicitly highlight the accountabilities of the corporate board. The requirement to form a CSR committee is the first statutory regulation on corporate board characteristics that are focused on CSR. These committees are responsible for formulating draft CSR policies, recommending the CSR projects and the spending for different activities, and monitor the overall CSR strategy. The board is responsible for ratifying the CSR policy recommended by the Committee, implementing the projects, and communicating the CSR activities (The Companies Act, 2013).

Section 135 describes only the size and independence requirements for constituting the CSR committees. These committees should be composed of at least three directors, at least one of whom should be a non-executive director. However, there is no legal requirement to appoint directors with specific skills and expertise in these committees; neither are there any restrictions on the CEOs to be members of these committees. In effect, this makes the CSR committees the only statutory board committee in which the CEO can officially be a member.

The "comply-or-explain" basis is of particular interest when interpreting Section 135 since it only applies to the spending amount on CSR. It means that if a company meets at least one of the three requirements, it is mandated to establish a CSR committee and perform all committee and Board obligations, even if it does not meet the CSR spending targets (The Companies Act, 2013).

The institutional setting of Section 135 has some unique advantages to study the effect of corporate governance on CSR practices. First, in this context, every company discloses a comparable quantitative measure of their CSR expenses. These expenses are part of the annual audited financial filings and are disclosed in a prescribed format. Therefore, it is easier to compare CSR expenses across companies and over the years (Dharmapala and Khanna, 2018). Second, while the law mandates the size and independence of the CSR committees, companies have discretion in terms of appointing directors with relevant expertise, the CEO or female directors. Companies' strategic choices to form CSR committees provide a unique lens to examine how some governance parameters affect CSR outcomes. Finally, the pre-Section 135 distribution of CSR directors is likely to differ across industries. It gives an empirical advantage in examining the causal relationship between corporate governance practices and CSR activities. Directors with specific skills are in short supply (Dass et al. 2014, Defond et al. 2005), but companies in specific industries are likely to have lower search costs for CSR-

Directors. The lower search cost is related to the companies' decisions to appoint CSR directors, but the search cost should not have affected company-level CSR outcomes directly.

In summary, the context of the Indian CSR law offers an attractive setting to overcome some of the data and methodological challenges that have restricted empirical investigations on the effect of corporate governance on CSR.

2.2 Corporate Governance, Director Expertise, and CSR

The Board of directors performs the dual role of monitoring the management and providing strategic advice (Fama and Jensen, 1983; Adams and Ferreira, 2007). Directors with relevant expertise facilitate the functioning of the boards being a conduit of general and technical information. An extensive literature documents the effect of individual director skills on company performance. For example, Güner et al. (2008) examine the impact of financial expertise of directors on corporate policies; Dass et al. (2014) examine the effect of related industry experience, and Goldman et al. (2009) examine the effect of political experience. A stylized result from these papers is that director expertise is positively associated with financial outcomes. These studies provide a partial view of how the specific expertise of (often an individual) director affects profitability. Adams et al. (2018) argue that whether a particular skill adds to the board's functioning depends on the other directors' skillsets on the board. They find that commonalities in the skills of directors are value-enhancing for the companies.

The extent to which the directors affect corporate sustainability practices is not widely studied. In a recent paper, Iliev and Roth (2020) examine this question for US companies. They use sustainability regulatory changes in a foreign country as an exogenous shock to the CSR sensitivity of US companies. They find that the CSR performance of US companies affected by these shocks through interlocking directorships with an overseas company increases. However, the mechanism through which these interlocked directors affect CSR outcomes remains an open question.

Directors appointed to board committees are likely to have a more significant influence on corporate governance. Corporate boards function mostly through board carry out the three prominent roles through committees: compensation, nomination, and audit. Companies also form board committees on legal affairs, risk, real estate, international, corporate social responsibility, sustainability committees, scientific, technology, etc. Boards delegate specific tasks to committees to make strategic decisions more efficiently (Adams, 2003; Laux and Laux, 2009). An underlying assumption is that the committees have expertise in one specific area, which allows them to make better decisions.

When experts are present on the committees, they improve both qualitative and quantitative outcomes. For example, Agarwal and Chahdha (2005) show that financial experts in audit committees reduce the likelihood of earnings restatements. Krishnan et al. (2011) find that financial reporting quality increases when directors with accounting and legal expertise serve on audit committees. However, the matching of director skills to board committees is relatively low, at least in the United States (Adams et al., 2018). For example, Adams et al. (2018) find that of the 291 sustainability committees in US companies, only 11 percent have a director with sustainability experience.[13] If there is sufficient variation in the representation of a skill on a board committee, the estimation of the cross-sectional effect of that skill on the governance outcomes is straightforward. However, except for the three standard committees, firms endogenously choose to have the other board committees. That companies choose to form a specific committee complicates examining the causal impact of the committee as a governance mechanism on the outcomes.

In the context of the Indian CSR law, the formation of the CSR committees is not a voluntary choice of companies, but the appointment of directors with relevant expertise is. The CSR-Directors can advise the management on the CSR strategy, the choice of the projects, the costs of compliance etc., and effectively monitor the CSR projects. In that sense, it is plausible that the expertise of directors in CSR-related roles is likely to be positively correlated with CSR outcomes. One way to examine the contribution of CSR directors on CSR outcomes is to examine if appointing companies have higher compliance with the law. Given the comply-or-explain mechanism, focusing on the proportion of the CSR target spent can be a reliable metric for compliance.

The relevant expertise of CSR-Directors can also affect the cost of compliance. A distinctive feature of the CSR target set by Section 135 is that the cost of implementation of CSR projects cannot be counted as CSR expenses. Therefore, it is plausible that companies will want to minimize the cost of compliance. Companies can achieve cost-minimization through economies of scale in fewer and more focused CSR projects. In an extreme case, a company can spend the full CSR target on one CSR project in one Indian state. However, CSR is often an image-building exercise and a form of advertisement to critical stakeholders (Ariely, Bracha and Meier, 2009; Bénabou and Tirole, 2010). Therefore, companies are likely to invest in more than one project across Indian states to target a broader range of stakeholders. The expertise of CSR directors is likely to be useful in choosing the portfolio of CSR projects that minimizes compliance costs. The cost-minimization imperative is likely to be more

[13] Other discretionary committees are better matched on skills. For example, the International, Marketing, Real Estate and Technology Committees are 88 percent, 60 percent, 44 percent and 37 percent, respectively.

binding for some companies compared to others. For example, companies with higher debt are less likely to incur higher compliance costs. Similarly, companies in more competitive industries with lower profit margins may also prefer a cost-efficient CSR strategy.

The benefits of appointing CSR-Directors are likely to be more for companies facing higher information costs. For example, the information cost is likely to be larger for companies with no CSR expenses before Section 135 but now must devise a CSR strategy. CSR directors are also likely to be effective in financially constrained companies. For example, companies with debt reduce free cash flow and increase monitoring by debtholders (Jensen, 1986). Similarly, companies with less liquid assets are also likely to face a higher cost of compliance with the law[14].

Additionally, companies with higher dependence on sales to retail consumers can have a higher demand for CSR-Directors due to CSR's potential advertising benefits (Brown, Helland, and Smith, 2006; Krueger, 2015). Finally, companies' ownership structure – institutional ownership and family ownership- is also likely correlated with the demand for CSR-Directors (Chen, Dong and Lin, 2020; Dyck, Lins, Roth and Wagner, 2019). Consistent with these arguments, we find that attributes such as the distance to CSR compliance, the level of debt and the reliance on sales increases the likelihood of the appointment of CSR directors. On the other hand, family-owned business group companies are less likely to appoint CSR-Directors.

The effect of CSR-Directors on compliance and cost of compliance are likely to be affected by the portfolio of director skills in the CSR committee (Adams et al. 2018). Given that the primary focus of the CSR committee is to ensure compliance, the effectiveness of these committees is likely to depend on the legal expertise of committee members (Krishnan et al., 2011). Similarly, accounting backgrounds are likely to be valuable for the effective functioning of these committees (Agarwal and Chahdha, 2005). Therefore, the effect of CSR committees as a corporate governance mechanism is likely to depend on the complementarity in the skills of CSR committee members.

2.3 CSR, Firm Value and other Corporate Outcomes

Ultimately, the economic desirability of CSR depends on its effect on shareholder value and other corporate outcomes. Adoption of CSR proposals can increase shareholder value by increasing labour productivity and sales (Flammer, 2015). On the other hand, shareholders can view CSR news negatively, particularly if they perceive it as a signal of agency problems (Kruger, 2015). For example,

[14] It is important to note in this regard that Section 135 explicitly excludes the cost of implementing CSR projects in the CSR expenses. Therefore, it is plausible that companies will aim to minimize these costs.

investors reacted negatively to the introduction of the CSR law in India. In the short run, the value of affected Indian companies fell. (Dharmapala and Khanna, 2018; Manchiraju and Rajgopal, 2017). The short-term negative value effect reflects the additional costs imposed on the companies by this law. However, in the longer run, Indian companies face the threat of penalties if they do not comply with the CSR law. There could also be an additional reputational cost to the company from negative news about CSR non-compliance (Kruger, 2015). Therefore, even though the law is enforced on a comply-or-explain basis, companies have incentives to comply.

Companies with higher CSR compliance are likely to have a competitive advantage over companies that choose to explain non-compliance. These advantages can be manifold. Investors can perceive companies with better CSR compliance and CSR processes as more resilient, leading to higher growth opportunities for these companies. Also, these companies will be attractive to institutional investors for their better governance and CSR compliance (Chung and Zhang, 2011; Dyck, Lins, Roth and Wagner, 2019). Foreign investors, particularly from countries with strong cultures of corporate social responsibility, are also likely to invest in companies with better CSR compliance.

Companies with better CSR reputation finds it easier to raise capital from the external market (Cheng, Ioannou and Serafeim, 2013). The lower capital constraints could be due to better credit ratings of CSR-active companies. For example, the S&P Global Ratings include several CSR-related criteria when making rating decisions, and in 2019, they officially added a new ESG section in its corporate credit ratings criteria.[15] The non-financial information in a company's CSR reputation affects its creditworthiness (Attig, El-Ghoul, Guedhami and Suh, 2013). The impact of CSR activities can affect credit ratings by as much as 4.5 percent (Jiraporn, Jiraporn, Boeprasert and Chang, 2013).

In gist, even though legal compliance can dilute the strategic motives for CSR, Indian companies with higher CSR compliance and better CSR processes can have a competitive advantage. These companies can be perceived as more resilient by investors, attract more institutional investment and have easier access to capital through better credit ratings.

[15] "S&P Global Ratings credit ratings express an opinion about the ability and willingness of an issuer to meet its financial obligations in full and on time and incorporate relevant factors-- including relevant and material ESG factors (risks and opportunities) --that may influence this opinion."

3 Data and Variables

3.1 Sample Selection and Descriptive Statistics

We use financial information on Indian companies from Prowess and merge that with board composition and director expertise data from BoardEx. The sample consists only of companies that are affected by the Indian CSR law. This choice is motivated by our focus on the CSR committees. We start with all 8,100 companies listed on the two main Indian stock exchanges – the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), but the selection criteria of only including companies affected by Section 135 limits the sample to 2,108 companies.

Next, we exclude all companies in which the government has a controlling stake. These companies differ substantially from publicly owned companies in their objectives and governance (Banerjee and Homroy, 2018). We further exclude companies for whom we cannot obtain the full set of information on individual director characteristics. Finally, we exclude from the sample companies for which CSR information is not available for both the pre- and the post-CSR law periods. Applying these selection criteria results in the final sample of 399 companies for the sample period 2015-2018. The final sample consists of 1,508 company-year observations.

Companies in the sample are large and profitable companies with the mean Total Assets of approximately US$ 79,500 [16] and the mean profitability (measured as Return on Asset) of 0.085. A company's debt can affect CSR expenses by reducing the free cash flow and managerial discretion (Brown et al., 2006; Jensen, 1986). The mean (median) total debt to total assets, a measure of indebtedness, of the sample companies is 0.39 (0.30).

Approximately half (48 percent) of the companies in our sample are family-owned. We use the information on the equity ownership structure from Prowess to estimate the stakeholding by a family[17]. The average shareholding by controlling family (Promoters) is approximately 22 percent. Further, we identify business group affiliates using the classification provided by Prowess and commonly used in similar studies[18] (Bertrand, Mehta and Mullainathan, 2002; Seigel and Chowdhury, 2012; Banerjee and Homroy, 2018). Approximately 35 percent (143 out of the 399) of the sample

[16] We use the natural log of Total Assets as the measure for firm size.
[17] We use a threshold of 20 percent equity ownership by members of the same family to classify controlling stake (La Porta et al. 1999)
[18] Business groups cannot entirely be defined by the concept of promoter stake or by family control. CMIE uses the available data, its intelligence and its judgement in associating a company to a business group or any ownership class in the ownership structure.

companies are business group affiliates. We use the same classification system to identify foreign-owned companies. 28 percent of the sample companies are foreign-owned. Finally, we construct a measure of institutional equity ownership - mean ownership of institutional ownership in the sample of companies is 19 percent, and foreign ownership - mean foreign ownership in the sample of companies is 12 percent. Table 1 presents the summary statistics, and appendix 1 describes the main variables.

[Table 1 here]

The boards of these companies consist, on average, of 11 directors, 51 percent of whom are independent non-executives. 59 percent of the sample companies have a CSR director. Four board committees are standard in these companies: audit, nomination, compensation, and the CSR committees. CSR committees are smaller than the other three committees: on average, 3.2 directors are members of the CSR committees, compared to 4 or 5 directors on the other committees. CSR committees are also less independent: over 66 percent of the audit, nomination and compensation committees are comprised of independent directors compared to only 38 percent in the CSR committees. Given that the legal requirement is to have at least one non-executive independent director in the CSR committee, it is not surprising.[19] A significant structural difference is that the CEO cannot be a member of our sample companies' audit, nomination and compensation committees. However, in 55 percent of the CSR committees, they are. Comparative statistics for the four committees are provided in table 2.

[Table 2 here]

We use the National Industrial Classification (NIC), similar to the SIC codes, to identify the primary industry classification of Indian companies[20]. Herfindahl-Hirschman Index measures the competitiveness within each industry segment using the market capitalization of all companies in that group. We classify industries as *High Competitive* (below median HHI) and *Low Competitive* (above median HHI). Finally, we identify companies in regulated industries using the Awasthi et al. (2019) classification.[21] We show the industry distribution of sample companies in table 3. We also indicate if the industry segments are highly competitive and regulated.

[19] CSR committees also have more female directors: 35 percent of CSR committee members are female compared to 6 percent of the other three committees combined. CSR Committee is also more likely to be female-led compared to the other three committees.
[20] We use the NICs from the 2008 update.
[21] The industry classifications of the sample companies are provided in appendix C.

[Table 3 here]

3.2 CSR Directors

Measuring and codifying director skills is a subjective exercise. We follow the commonly used measure of textual analysis of a director's career to construct a measure of director expertise in CSR. For the non-executive directors in our sample, we focus on a set of keywords like "Ethics", "Social responsibility", "Sustainability", "Community Engagement", "Compliance", and "Environment" to identify CSR-Directors. Appendix B provides a full list of keywords used to identify CSR-Directors, as well as a broader classification that includes "Risk", and "Safety". It is important to note that we only consider the expertise of directors in CSR *before* they take on a position in the CSR committee of a company in our sample. If a director has worked in at least one role with a social responsibility focus before being appointed to a CSR committee, we classify her as a CSR-Director. Of the 11,009 non-executive directors, 976 (8.86 percent) have CSR expertise. Of the 976 CSR-Directors, 272 (27 percent) are appointed to the CSR committees[22]. 136 companies (34 percent) have a CSR-Director on the board[23].

Using a similar textual method, we identify the legal and accounting experience of the non-executive directors.[24] In the sample of non-executives, 1,501 (13 percent) directors have legal experience, and 3,193 (29 percent) have accounting experience. There are 123 directors with legal expertise and 188 directors with accounting expertise in the CSR committees.

3.3 Measuring CSR outcomes

The primary measure of CSR outcomes is the compliance rate. This measure is the ratio of the annual CSR expense of the company and the CSR target set by Section 135. The CSR target is calculated as 2 percent of the pre-tax profit for the preceding three years. The average compliance rate is 64 percent – i.e. the average company in our sample spends 64 percent of its annual CSR target.

Next, it is difficult to have information on the cost of compliance. Companies are not required to disclose the implementation costs of CSR projects; neither can they include these costs in their CSR target. We approximate the compliance costs by measuring the number of schedules used by the companies to spend their CSR budget and the number of Indian states in which these projects are

[22] The match of director skills to committees compares well to the estimates by Adams et al. (2018) for US boards where the skills match in the sustainability committees is approximately 11 percent.
[23] Only 8 percent of companies has a CSR-Director in the 2010-2013 (pre-Section 135 period).
[24] For legal expertise, we use the following keywords: attorney, lawyer, and legal.

implemented. We use data from the National CSR Data Portal of India to identify the schedules used by individual companies to spend their CSR budget, which provides information on CSR activities carried out by eligible Indian companies. Companies file this information on the MCA21 registry in their financial statements about expenditure across states, districts, development sectors, etc[25]. A large proportion of the CSR budget of the sample of companies is spent under the prescribed schedules I, II and IV (i.e., on poverty alleviation and primary healthcare, education and environmental sustainability). The mean number of schedules used by a company in our sample is 4, with a standard deviation of 2. An average Indian company has CSR projects in 3 states outside that of the headquarters[26]. Figure 1 and figure 2 shows the distribution of total CSR expenses by schedules and states, respectively.

[Figure 1 and Figure 2 here]

4 Empirical Analysis

4.1 Univariate analyses

As a first step, we begin with all companies with a CSR committee and compare the observable differences between companies with directors with relevant expertise in the CSR committees and companies that do not. In figure 3, we show the yearly variation of CSR compliance of companies with and without CSR-Directors. The proportion of CSR budget spent is 11 percent higher in companies with CSR-Directors, and statistically significantly different from companies that do not appoint CSR-Directors.

[Figure 3 here]

CSR expertise of directors is also associated with three fewer schedules and two fewer states of CSR investment. Additionally, companies with CSR-Directors are more likely to have larger boards, more (less) likely to be foreign-owned (business group affiliates). The other significant differences are that companies with CSR directors have higher institutional and foreign ownership and are less likely to have CEOs on the CSR committees. There is no statistically significant difference in board size, board independence, and profitability between the two groups. Table 4 presents the univariate differences.

[25] To ensure the validity of the data, we compare the information provided by the government with the information provided by CSR Box, which is a non-governmental social sector organization and the annual CSR reports available on the website of these companies.
[26] We exclude all projects which are administered pan-India, i.e., the breadth of the project is across 15 or more Indian states.

[Table 4 here]

4.2 CSR Directors and CSR Compliance

We begin by examining which companies are more likely to appoint CSR-Directors. We estimate a linear probability model to estimate the effect of firm and industry characteristics on the likelihood of CSR-Director appointments:

$$CSR - Directors_{it} = \alpha_i + \delta_t + \gamma Z_{it} + \epsilon_{it} \quad (1)$$

where Z_{it} is a vector of all company, ownership, board and industry characteristics discussed in section 3, as well as the history of the company in CSR. We present linear probability estimates and the marginal effects from Probit models in columns 1 and 2 of table 5, respectively. We show that CSR-Director appointments are more likely in large, more profitable companies with higher institutional and foreign equity holding and less likely in business group affiliates.

[Table 5 here]

We find that companies with no previous CSR engagements, i.e. companies that reported no CSR expenses in the 2010-2013 period, were more likely to appoint CSR-Directors. Similarly, companies with higher debt, companies facing higher product market competition, and consumer-focused companies are more likely to appoint CSR-Directors. Together, these results suggest that companies with cost constraints to comply with the CSR law are more likely to appoint CSR-Directors. Presumably, these companies seek to use the specific expertise of these directors in addressing the compliance requirements.

To test the hypothesis that CSR-Directors affects CSR compliance, we estimate the following Ordinary Least Squares (OLS) specification:

$$FractionCSRBudget_{it} = \alpha_i + \delta_t + \beta CSRDirector_{it-1} + \gamma Z_{it} + \epsilon_{it} \quad (2)$$

where $FractionCSRBudget_{it}$ is the proportion of CSR budget spent by the company *i* in a given year *t*, $CSRDirector_{it-1}$ is an indicator for the presence of a non-executive director with relevant expertise in the CSR committee in the previous year, and Z_{it} is a vector of all company, ownership, board and industry characteristics discussed in section 3. We show the OLS estimates in column 1 of table 6. CSR-Directors are associated with a higher compliance rate. This effect is economically meaningful and statistically significant: companies that appoint CSR directors have, on average, 16 percent higher

spending of the CSR budget than companies that do not. In terms of the economic effect, CSR-Directors are associated with a 25 percent increase on the mean CSR compliance of the sample companies[27].

[Table 6 here]

The appointment of CSR-Directors is likely to be endogenous to past CSR performance. For example, CSR-Directors may self-select into companies with a better reputation of socially responsible practices. To address this concern, we employ firm-fixed effects regressions to account for time-invariant characteristics – at least in the short run – like company policies, managerial preferences, and institutional shareholder pressures for CSR. We present the results in column 2. Average CSR compliance is 12 percent higher in the period following the appointment of CSR-Directors compared to the preceding period.

We use an instrumental variable (IV) regression where the industry-supply of CSR-Directors predicts the firm-level appointments in the first stage. In turn, these appointments affect the CSR compliance in the second stage regressions:

$$CSRDirectors_{it} = \alpha_i + \delta_t + \beta Pre - Directors - Supply_i + \lambda Z_{it} + f_i + \epsilon_{it} \quad (3a)$$

$$FractionCSRBudget_{it} = \alpha_i + \delta_t + \beta \widehat{CSRDirector}_{it-1} + \kappa Z_{it} + f_i + \epsilon_{it} \quad (3b)$$

$CSRDirector_{it-1}$ is an indicator for the appointment of CSR-Directors to CSR committees, $\widehat{CSRDirector}_{it-1}$ is the predicted value of $CSRDirector_{it-1}$ from equation 3a, $PreDirectors - Supply_i$ is the number of CSR-Directors in the same industry sector in the 2010-2013 period, scaled by the total board seats in the industry group, Z_{it} is a vector of all company, board and industry characteristics discussed in section 3. Industry fixed-effects, f_i, are used to control for unobserved industry-specific factors that might be correlated with the supply of CSR directors. The first stage and second stage IV estimates are presented in columns 3 and 4 of table 6.

A higher industry supply of CSR-Directors is positively associated with the firm-level appointment of CSR-Directors. The lower search costs for these directors drive this association. The F-statistics from the first-stage regression is 12.17, which is higher than the Stock, Wright, and Yogo (2002) threshold for weak instruments. Considering the potential endogeneity in the appointment of CSR-Directors, we demonstrate statistically significant and economically meaningful effects on CSR compliance. Within

[27] The mean CSR compliance, i.e. fraction of CSR target spent by Indian companies, is 64 percent.

the firm-fixed effects models, our results imply that the average CSR compliance in the years following the appointment of CSR-Directors is 11 percent higher compared to the preceding years.

4.3 Mechanisms of the effect of CSR-Directors

Beyond the effect of CSR-Directors on compliance, it is essential to identify the mechanism of the impact. We examine the effect of CSR-Directors on the CSR strategy. Specifically, we examine the number of Schedules used to spend the CSR budget and the number of states in which the CSR projects are implemented. Given the relatively short time series, there is little yearly variation in the CSR strategy of companies. Therefore, we focus on the cross-sectional difference between companies that appoint CSR-Directors and firms that do not. We present OLS and instrumental variable regression estimates in table 7.

[Table 7 here]

In column 1, we demonstrate a negative and statistically significant association between companies that appoint CSR-Directors and the number of schedules reported by companies in their CSR disclosure. CSR-Directors are associated with two fewer schedules used by companies to spend their CSR budgets. We find qualitatively similar results from instrumental variable regressions (column 2). Further, in columns 3 and 4, we show that CSR directors are also associated with three fewer states in which CSR projects are implemented. Given that the median number of schedules used by the sample of firms is 4, companies with CSR-Directors use 50 percent fewer schedules.

Similarly, companies with CSR-Directors have CSR projects in 75 percent lesser number of states compared to the median of 4 states for the sample of firms. Insofar as it is costly to set up CSR projects, fewer schedules and geographic spread indicate that directors' relevant expertise is associated with a more cost-effective CSR strategy. The lower cost of compliance, in turn, drives higher compliance.

4.4 Direct and Indirect Effects of CSR Compliance

An important consideration is the extent to which CSR compliance affects corporate outcomes. It is particularly crucial to examine this issue because the introduction of the CSR law led to a reduction in the short-term value of affected companies (Dharmapala and Khanna, 2018; Manchiraju and Rajgopal, 2017). On the other hand, compliance with regulations improves firm value because it reduces agency conflicts between shareholders and managers (Black et al., 2006). For this reason, investors can value companies that seek relevant expertise compared to those that do not.

In column 1 of table 8, we focus on cross-sectional differences in market-to-book value of companies with high CSR compliance (above the 90th percentile of the distribution of CSR-compliance) compared to companies with lower compliance. We find that investors are willing to pay a premium on the company's book value with high CSR compliance. Additionally, high compliance companies with a CSR-Director are valued higher than high compliance companies with no CSR-Directors. Interestingly, companies with CSR-Directors by themselves experience no value gains. Using instrumental variable regressions, we also show that CSR directors by themselves do not affect firm value. The source of value creation is the matching of CSR expertise of directors and higher compliance rate (column 2).

CSR-active companies have lower financing constraints (Attig et al. 2013; El Ghoul et al. 2011). If that is the case, Indian companies with higher CSR compliance should face lower barriers to raising capital. In column 3, we examine if high compliance companies face easier financing opportunities. We use an indicator for an upgrade in the credit ratings of the companies within a sample period as a proxy for financing opportunities[28]. We have 85 cases where a company in our sample has upgraded credit rating within 2015-2018. Using a linear probability model, we show that such upgrades are more likely for companies with a CSR-Director compared to companies without this expertise on the board. Similar to the estimates of firm value, we show that the gain in credit ratings is due to the matching of CSR expertise of directors and higher compliance rate (column 4).

[Table 8 here]

Next, we examine if CSR-Director appointments are associated with higher institutional ownership and foreign institutional ownership in columns 5 and 6. We examine the effect of CSR-Director appointment on these ownership measures using the firm fixed effects model. We demonstrate that CSR-Director appointment is associated with a subsequent increase in institutional and foreign investors' equity ownership.

Together, our results indicate that the market, especially the institutional investors, view the appointment of CSR-Directors positively, and the appointing firms increase in value and have easier access to capital.

[28] We use information on upgrade, downgrade and reaffirmation of credit ratings from Prowess. This information is sourced from the five major rating agencies in India: Crisil (which is a S&P group company), ICRA (which is a Moodys group company), Fitch, CARE, and Brickwork.

4.5 Heterogeneous Treatment Effects

To examine the cost-of-compliance mechanism, we focus on companies with high cost-pressures due to indebtedness and industry competition. Panel A shows the effect of CSR-Directors on companies with high debt, and panel B shows the effect of CSR-Directors on companies in highly competitive industries. In columns 1, 2, and 3 of table 9, we show the effects on CSR compliance, the number of schedules and the number of states, respectively. We show the cross-sectional results using the interaction of the indicator for companies with CSR-Director and the debt-to-assets ratio. The estimate of the interaction term is positive in column 1, negative in columns 2 and 3, and statistically significant in all three specifications. CSR-Directors appointed in firms with higher debt is associated with higher compliance and fewer schedules and states in which CSR projects are implemented.

[Table 9 here]

In panel B, we show the cross-sectional results using the interaction of the indicator for companies with CSR-Director and an indicator for companies in highly competitive industries (below median HHI). Our results are similar to panel A - CSR-Directors appointed in highly competitive firms are associated with higher compliance and fewer schedules and states in which CSR projects are implemented.

Next, we focus on a subsample of companies with strong external regulation (panel A) or family ownership (panel B) of table 10. In columns 1, 2, and 3, we show the effects on CSR compliance, the number of schedules and the number of states, respectively. In column 1 of panel A, the standalone CSR-Director indicator is positive and statistically significant, but the interaction terms of CSR-Director and Regulated Industries is negative and statistically significant. The net effect of CSR-Directors on compliance in regulated industries is statistically indifferent from zero. In columns 2 and 3, the standalone coefficient on the *CSR-Director* indicator is negative and statistically significant, and the indicator term is positive but not statistically significant. Together, these results highlight a diminished role of CSR-Directors in regulated industries. The results reported in panel B are parallel to panel A and highlight no statistically significant effect of CSR-directors on compliance or the cost-of-compliance in business group firms.

[Table 10 here]

4.6 Validation of the CSR-Directors classification

We use a broader classification of CSR-Directors by including keywords such as "Risk", "Security", and "Health" to reflect a more comprehensive set of experience rather than specific CSR experience. For example, directors with expertise in risk may have expertise in reputational risk management. We use this broader classification to re-estimate our baseline models of CSR compliance and compliance costs. We show that the firm-fixed effects models and the instrumental variable regressions are qualitatively similar to the baseline. We present the results in table 11.

[Table 11 here]

5 Additional Analyses

5.1 Announcement Returns

If CSR-Directors are valuable to companies, we expect that to reflect how investors receive the news about their appointments (Dass et al., 2014; Defond et al., 2005). To explore investors' assessment of directors with CSR expertise, we examine cumulative abnormal returns around the appointment of new directors. To cleanly identify the announcement returns, we exclude all announcements that overlap with announcements about other director appointments, quarterly earnings, mergers and acquisitions, product launches, and environmental impacts. Within our sample period, we have identified 179 CSR-Director announcements that are not within 20 business days of other value-relevant events. The abnormal returns are calculated based on a Fama-French-Carhart four-factor model using the equal-weighted and value-weighted market portfolio for 3-day and 7-day event windows. We use price data from -250 to -7 days before the event to estimate the parameters of the market model. We find CARs of 0.08 percent around the appointment of CSR experts. We present the results in appendix C.

5.2 CSR-Focused Companies

The effect of CSR-Directors on CSR outcomes is likely to be influenced by the pre-Section 135 CSR preparedness of Indian companies. Section 135 is less likely to affect companies with an existing CSR program than companies with no CSR program when the regulation was instituted. We examine the effect of CSR-Directors on companies with no previous history of reporting CSR expenses by constructing a dummy (*No Pre-2013 CSR*) which equals '1' if a company has not declared any CSR expense in the 2010 -2013 period, 0 otherwise. We estimate the baseline specifications with this

dummy and interaction of *CSR-Directors* and *No Pre-2013 CSR.* We show the results in appendix D. CSR-Directors are associated with 8 percent higher compliance over the baseline in companies with no previous CSR expenses. Compared to the baseline, these directors are also associated with a lower cost of compliance in these companies. These results further highlight the role of governance mechanisms in companies with higher costs to be socially responsible.

5.3 Consumer-Focused Companies

Companies more dependent on sales are likely to benefit from CSR in the form of advertising (Besley and Ghatak, 2007; Krueger, 2015). We examine if CSR-Directors have a more significant impact on these companies than companies with lower sales dependence. We partition the sample based on the distribution of Sales Turnover-to-Asset ratio and estimate the baseline regressions with an indicator for *Consumer-Focused Companies* (above median Sales-to-Asset ratio) and interaction of *CSR-Directors* and *Consumer-Focused* Companies. We report the results in appendix E. CSR-Directors are associated with higher compliance in consumer-focused companies. However, we do not find any statistically significant effect at the 5 percent level of CSR-Directors on the cost of compliance. Consumer-focused is likely to use CSR as an advertising strategy to reach out to new markets. Therefore, they may benefit from the advisory role of CSR-Directors, but not necessarily follow a cost-effective CSR strategy.

5.4 Role of CEOs

CSR committees are unique in that the CEO is not disallowed from being a member. It is an interesting dimension because the agency motives of the CEO are often alleged to be the main motivation for CSR. How does the presence of the CEOs in CSR committees affect the role of CSR-Directors? It is conceivable that the CEO's choice can have a disproportionate impact on the committee's decision-making. We address this concern by estimating our baseline models with an additional control *CEO in CSR Committee,* which equals '1' if the CEO is a member of the CSR committee. We also introduce an interaction term of *CEO and CSR Director,* which equals '1' if both the CEO and a director with relevant expertise are present in the CSR committee. The results are presented in appendix F.

The presence of the CEO in CSR committees is associated with a higher fraction of the CSR budget being spent, a larger number of schedules being used and in a larger number of states. The simultaneous presence of the CEO and a CSR Director in the CSR committee is associated with a higher fraction of the CSR budget being spent. It is also associated with a higher cost of compliance.

Compared to the baseline, these companies report CSR projects in a higher number of schedules and a larger number of states.[29]

One possible explanation of the higher compliance cost is that the CEOs may want to use the CSR budget as an image-building exercise and "signal" the socially responsible initiatives of the company to a diversified pool of stakeholders (Ariely, Bracha and Meir, 2009). On the other hand, the CSR directors' preference is likely to be driven by considerations of the efficiency of the CSR projects.

5.5 CSR Directors and Other Expertise in CSR Committees

Finally, it is possible that a CSR-Director most likely brings other core skills, such as accounting experience, which might affect the outcome variables of the model rather than the CSR expertise. We examine the effect of CSR-Directors on CSR compliance and the cost of compliance in the presence of other complementary skills such as accounting and legal expertise. The results are presented in Appendix G. In panel A, we examine the effect of accounting experts in CSR committees. The dependent variables in columns 1, 2, and 3 are the fraction of the CSR budget spent, the number of schedules and the number of states, respectively. We use indicators for *Accounting Experts* (88 companies in our sample) and *Legal Experts* (137 companies in our sample) in the CSR committees. Adding these controls do not alter the estimate of standalone CSR-Directors indicator. Also, the interaction of *Accounting Experts* with CSR-Directors has a positive (negative) and statistically significant on compliance (cost of compliance). In panel B, we examine the effect of legal experts in CSR committees. The effect of the simultaneous presence of *Legal Experts* and CSR-Directors is similar to that of *Accounting Experts.* We present the results in appendix G.

5.6 Male vs Female-Led CSR Committees

Some studies show the female directors are associated with better sustainability performance of companies (McGuiness, Vieito and Wang, 2017). We examine if female leadership of CSR committees is associated with better CSR outcomes. 31 percent of the CSR committees in our sample have a female Chair. We estimate the baseline regressions with an additional indicator for Female-led committees, which equals '1' if a female director chairs a CSR committee, 0 otherwise. We find no statistically significant difference in CSR compliance or the cost of compliance between companies with female- and male-led CSR committees. We show the results in appendix H.

[29] The presence of both the CEO and the CSR director on the CSR Committee is likely to be an outcome of endogenous formation of these committees. For example, it is possible that the CEO appoints herself on the CSR committee when she expects the CSR director to formulate strategies inconsistent with the long-term goals of the companies.

6 Conclusion

Corporations will always seek to maximize profits, and socially responsible practices will always be costly in the short run. While it is well recognized that a substantial change in business practices is required for corporations to engage with broader stakeholders meaningfully, there is little focus on the corporate governance mechanisms necessary for corporations to pursue a socially responsible agenda (Summers, 2019; Zingales, 2019). Recently, a European Commission study on sustainable corporate governance has proposed that companies should be required to appoint directors with expertise in corporate sustainability practices.

This paper focuses on the Indian CSR Law of 2013 to examine how corporate governance mechanisms affect CSR compliance. We examine the CSR-specific skills of directors and the portfolio of skills in the CSR committees. The novel institutional setting also allows us to examine the mechanism through which director expertise in CSR committees affect compliance.

Our main result is that appointment of CSR-Directors leads to better compliance with the CSR law - companies with a CSR-Director have 11 percent better compliance than the average company. We demonstrate that CSR-Directors affect compliance by pursuing CSR projects with lower compliance costs. Finally, we show that investors view CSR compliance and the appointment of CSR-Directors positively - companies with higher CSR compliance gain in value and have easier access to capital. Overall, our results highlight that corporate governance mechanisms such as dedicated CSR committees and the appointment of directors with experience in CSR can lead to more cost-efficient CSR strategies. The persuasion of the cost-efficiency strategies and higher compliance with the CSR law positively impacts the company's value.

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Table 1

Summary Statistics

In this table, we present the summary statistics of our sample of listed Indian companies from 2015-2018. Panels A and B present information on the board and director characteristics and company characteristics, respectively. All monetary variables are winsorized at the 1% level. *Fraction CSR Budget* is the fraction of the legally mandated CSR budget spent by the company annually. *Number of Schedules* is the number of Section 135 listed schedules used by a company to spend the CSR budget. *Number of States* number of Indian states in which CSR projects of a company are implemented. *CSR-Directors* is an indicator for directors with expertise in sustainability, ethics, community engagement and compliance before the appointment. *Accounting Experts* is an indicator for directors with expertise as an Accountant, Audit Committee member, Finance, Accounting, and Tax before the appointment. *Legal Experts* is an indicator for directors with expertise as Attorney, Lawyer, and Legal Committee members before the appointment. *CEO-Member* is an indicator of the presence of the CEO in the CSR committee. *Firm Size* is the natural logarithm of total assets. *Board Size* is the number of directors on the board. *Board Independence* is the proportion of the board composed of independent non-executive directors. *Business Group* is an indicator for firms that are parts of a business group. *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stakeholding. *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions. *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions. *ROA* is calculated as net income divided by total assets. *Debt* is calculated as the Debt-to-Total Assets ratio. *HHI* is the sum of squares of the market share of each firm in an industry. *Pre-Directors Supply* is the number of CSR-Directors within the industry group of a company in the 2010-2013 period, scaled by the number of board positions in that industry. The data source for each variable is listed in Appendix A.

Variable	N	Mean	Std Dev	Minimum	Maximum
Panel A: Board and Director Characteristics					
CSR-Directors	1,508	0.59	0.46	0	1
Board Size	1,508	11.96	3.79	3	26
Board Independence	1,508	0.51	0.23	0.48	0.68
CSR Committee Size	1,508	3.25	0.91	2	4
CEO-Member	1,508	0.55	0.48	0	1
Female-Led	1,508	0.35	0.23	0	1
Accounting Experts	1,508	0.14	0.57	0	1
Legal Experts	1,508	0.33	0.40	0	1
Panel B: Company and Industry Characteristics					
Fraction CSR Budget	1,508	0.64	0.33	0	1
Number of Schedules	1,508	4	2	0	6
Number of States	1,508	3	3	1	29
Firm Size	1,508	11.34	12.49	0.019	16.13
ROA	1,508	0.085	0.057	0.006	0.207
Debt	1,508	0.39	0.33	0.14	0.75
MTBV	1,508	1.87	0.94	0.98	2.39

%Shareholding-Promoters	1,508	40.38	21.74	0.00	72.14
%Shareholding-Institutions	1,508	19.66	28.03	0.00	68.19
%Shareholding-Foreign	1,508	12.67	26.88	0.00	39.75
Business Groups	1,508	0.47	0.38	0	1
HHI	1,508	0.422	0.113	0.022	0.771
Pre-Directors Supply	1,508	0.208	0.437	0	0.522

Table 2

Comparison of Different Committees

In this table, we present the comparison of the composition of the three standard board committees (Audit, Nomination, and Remuneration) with the legally mandated CSR Committees. *Committee Size* is the number of directors on each committee. *Committee Independence* is the proportion of independent non-executive directors in the committee. *%Female* is the proportion of female directors in the committee. *Female-Led* is an indicator if the Chair of the committee is a female director. *CEO-Member* is an identification if the committee allows the incumbent CEO to be a member.

Variables	Audit Committee	Nomination Committee	Remuneration Committee	CSR Committee
Committee Size	4.20	5.33	4.50	3.25
Committee Independence	0.75	0.67	0.70	0.38
% Female	0.13	0.08	0.04	0.35
Female-Led	0.05	0.00	0.00	0.15
CEO-Member	No	No	No	Yes

Table 3

Industry Distribution of the Sample with HHI and Regulation

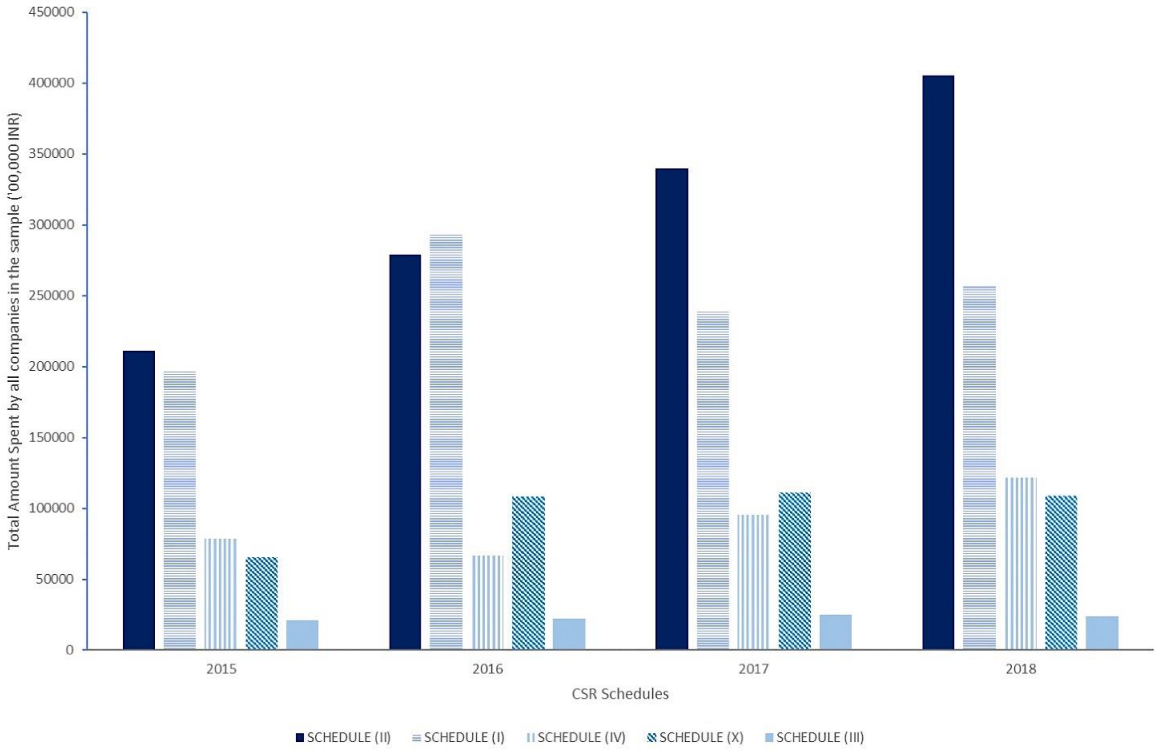
This table illustrates the distribution of companies across the main NIC industry classifications. Column 1 presents the percentage of firms in an industry group; column 2 indicates if an industry group is classified as high competition (below the median of HHI distribution), and column 3 indicates if an industry group is classified as a regulated industry in Awasthi et al. (2019).

Industry	Proportion of Firms (Percentage)	High Competition (Below median HHI)	Regulated Industries
	(1)	(2)	(3)
Agricultural products	7.3	0	0
Automobiles and transport	7.5	1	0
Chemicals and fertilizers	5.8	0	0
Food and beverages	7.8	1	0
Industrials	8.9	0	1
Infrastructure	6.2	1	1
Telecommunication	4.4	0	1
Leather and footwear	8.1	1	0
Metals and metallurgy	7.6	0	0
Minerals and petroleum	3.2	0	1
Paper	2.8	0	0
Pharmaceuticals	3.9	1	0
Plastic Products	2.1	1	0
Services	5.7	1	0
Sustainable Energy	3.3	0	1
Textiles and Garments	11.1	1	0
Banking and Financial Services	4.3	0	1

Figure 1

Schedule-wise Distribution of CSR Expenses

In this figure, we present the spending on CSR by Indian companies in the 2015 -2018 sample period across the five schedules most commonly reported by companies. The horizontal axis denotes the schedules for every year, and the vertical axis denotes the total CSR expense (in '00,000 INR) by schedules for all firms in the sample.



Legend of the Schedules:

Schedule I: Eradication of Hunger, Poverty, Malnutrition; Promoting Health Care, Preventive Health Care and Sanitation.

Schedule II: Promoting Education, including special education and vocational skills.

Schedule III: Promoting Gender Equality and empowering women.

Schedule IV: Ensuring environmental sustainability and ecological balance.

Schedule V: Protection of national heritage, art and culture.

Schedule VI: Measures for the benefits of armed forces veterans.

Schedule VII: Training to promote rural sports, Olympic and Paralympic sports.

Schedule VIII: Contributions to Prime Minister's Relief Fund.

Figure 2

State-wise Distribution of CSR Expenses

In this figure, we present the spending on CSR by Indian companies in the 2015 -2018 sample period across different states. The darker shades represent a larger number of companies administering CSR projects in that state.

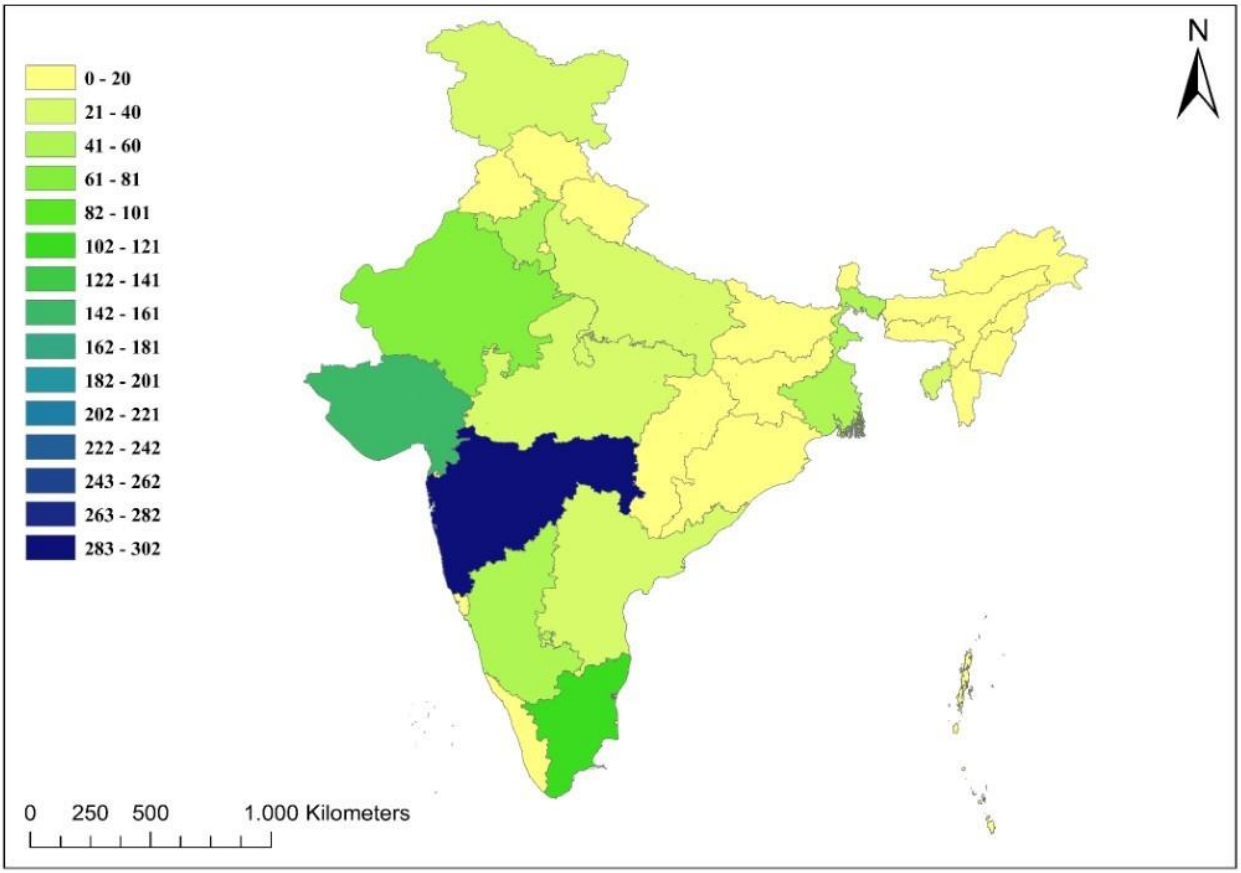


Figure 3

Compliance to CSR Targets: Companies with and without CSR-Directors

In this figure, we show the fraction of CSR targets spent by companies with CSR-Directors (green dashed line) and companies without (blue dotted line) for each year of the sample period. The solid grey line shows the sample mean for each year.

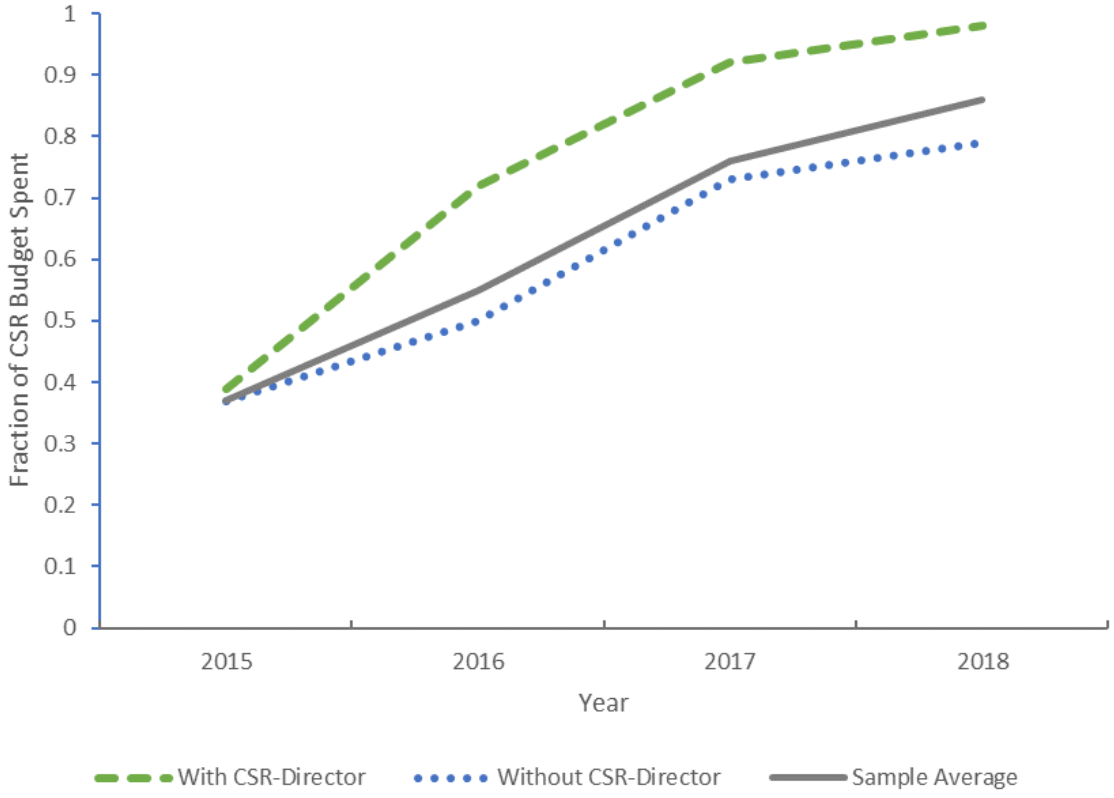


Table 4

Univariate Comparisons

In this table, we present the bivariate comparisons of observable characteristics of companies with and without CSR-Directors. *Fraction CSR Budget* is the fraction of the legally mandated CSR budget spent by the company annually. *Number of Schedules* is the number of Section 135 listed schedules used by a company to spend the CSR budget. *Number of States* number of Indian states in which CSR projects of a company are implemented. *CEO-Member* is an indicator for the incumbent CEO to be a member of the CSR committee. *Firm Size* is the natural logarithm of total assets. *Board Size* is the number of directors on the board. *Board Independence* is the proportion of the board composed of independent non-executive directors. *Business Group* is an indicator for firms that are parts of a business group. *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions. *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions. *ROA* is calculated as net income divided by total assets. ** denotes statistical significance at 5% level.

	Companies with CSR-Directors	Companies without CSR-Directors	Difference
Fraction CSR Budget	0.79	0.61	0.18**
No. of Schedules	3	6	-3**
No. of States	4	6	-2**
CEO-Member	0.43	0.72	-0.29**
ROA	0.089	0.084	0.05
Firm Size	12.28	11.17	1.11**
Board Size	10	9	1
Board Independence	0.53	0.51	0.02
%Shareholding-Institutions	0.23	0.17	0.06**
%Shareholding-Foreign	0.16	0.11	0.05**
Business Groups	0.37	0.58	-0.21**

Table 5

Appointment of CSR Directors

In this table, we present the estimates for the likelihood of appointing CSR-Directors. Column 1 presents the linear probability estimates, and column 2 presents the marginal effects from a Probit regression. The dependent variable in both specifications is a binary indicator for the appointment of CSR-Directors. *Firm Size* is the natural logarithm of total assets. *Board Size* is the number of directors on the board. *Board Independence* is the proportion of the board composed of independent non-executive directors. *Business Group* is an indicator for firms that are parts of a business group. *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stakeholding. *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions. *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions. *ROA* is calculated as net income divided by total assets. *Debt* is calculated as the Debt-to-Total Assets ratio. *HHI* is the sum of squares of the market share of each firm in an industry. Standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

	LPM	Probit
	(1)	(2)
Firm Size	0.981***	0.242**
	(0.328)	(0.101)
ROA	1.028***	0.370**
	(0.234)	(0.152)
Debt	0.650**	0.167**
	(0.313)	(0.084)
Business Groups	-0.788***	-0.192**
	(0.221)	(0.076)
No Pre-2013 CSR	0.329**	0.123**
	(0.148)	(0.054)
Consumer-Focused Company	0.414**	0.177**
	(0.209)	(0.080)
%Shareholding-Promoters	0.128	0.055
	(0.104)	(0.039)
%Shareholding-Institutions	0.212**	0.133**
	(0.092)	(0.065)
%Shareholding-Foreign	0.344**	0.128**
	(0.136)	(0.057)
Board Size	0.110	0.044
	(0.073)	(0.035)
Board Independence	0.142	0.066
	(0.085)	(0.048)

HHI	0.228**	0.107**
	(0.108)	(0.053)
Year Dummies	Yes	Yes
N	1,508	1,508
R^2	0.359	
Pseudo-R^2		0.210

Table 6

Effect of CSR-Directors on CSR Compliance

In this table, we present the results for the effect of CSR-Directors on CSR compliance. Column 1 presents the OLS estimates; column 2 presents estimate with firm fixed effects. Columns 3 and 4 presents the first- and second-stage estimates from the instrumental variable regressions. In columns 1, 2, and 4, the dependent variable is Fraction CSR Budget Spent, and in column 3, the dependent variable is an indicator for the appointment of CSR Directors. *Firm Size* is the natural logarithm of total assets. *Board Size* is the number of directors on the board. *Board Independence* is the proportion of the board composed of independent non-executive directors. *Business Group* is an indicator for firms that are parts of a business group. *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stakeholding. *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions. *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions. *ROA* is calculated as net income divided by total assets. *Debt* is calculated as the Debt-to-Total Assets ratio. *HHI* is the sum of squares of the market share of each firm in an industry. *Pre-Directors Supply* is the number of CSR-Directors within the industry group of a company in the 2010-2013 period, scaled by the number of board positions in that industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

	OLS	FE	IV 1st Stage	IV 2nd Stage
Dependent Variable	Fraction CSR Budget	Fraction CSR Budget	CSR-Directors	Fraction CSR Budget
	(1)	(2)	(3)	(4)
CSR-Directors	0.163***	0.122**		0.113***
	(0.044)	(0.049)		(0.041)
Pre-Directors Supply			0.806***	
			(0.238)	
Firm Size	0.116***	0.089	0.119**	0.127**
	(0.040)	(0.054)	(0.028)	(0.050)
ROA	0.347***	0.103**	0.224***	0.120**
	(0.132)	(0.048)	(0.061)	(0.046)
Debt	-0.111**	-0.016	0.153**	-0.024
	(0.053)	(0.011)	(0.064)	(0.018)
Business Group	0.081		-0.213	0.108
	(0.058)		(0.149)	(0.080)

%Shareholding-Promoters	0.078 (0.061)	0.007 (0.005)	-0.023* (0.012)	0.005 (0.004)
%Shareholding-Institutions	0.093* (0.048)	0.028 (0.019)	0.072** (0.033)	0.024 (0.020)
%Shareholding-Foreign	-0.033** (0.015)	0.015 (0.012)	0.054** (0.023)	0.017 (0.011)
Board Size	0.049 (0.044)	0.032 (0.026)	0.035 (0.024)	0.030 (0.025)
Board Independence	0.139 (0.078)	0.022 (0.020)	0.026 (0.025)	0.028 (0.022)
HHI	0.237** (0.112)	0.055 (0.046)	0.048 (0.031)	0.049 (0.044)
Year Dummies	Yes	Yes	Yes	Yes
Industry Dummies	Yes	Yes	Yes	Yes
Firm Fixed Effects	No	Yes	No	No
N	1,508	1,508	1,508	1,508
First-Stage F-Statistic	--	--	12.17	--
Adj R2	0.384	0.490	0.357	--

Table 7

Mechanisms for the effect of CSR-Directors on CSR Compliance

In this table, we present estimates from the cross-sectional regressions on the effect of CSR-Directors on the cost of compliance. The dependent variable in columns 1 and 2 is the Number of Schedules, and in columns 3 and 4, it is the Number of States. *Number of Schedules* is the number of Section 135 listed schedules used by a company to spend the CSR budget. *Number of States* number of Indian states in which CSR projects of a company are implemented. *CSR-Directors* is an indicator for directors with expertise in sustainability, ethics, community engagement and compliance before the appointment. Both specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable	Number of Schedules		Number of States	
	(1)	(2)	(3)	(4)
CSR-Directors	-2.166***	-2.009***	-3.045***	-2.983***
	(0.564)	(0.449)	(0.927)	(0.767)
Control Variables	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes
Firm Fixed Effects	No	Yes	No	Yes
N	1,508	1,508	1,508	1,508
Adj. R^2	0.448	--	0.380	--
Estimation	OLS	IV	OLS	IV

Table 8

Effect of CSR Compliance and CSR-Directors on Company Outcomes

In this table, we show the effect of CSR compliance on companies' financial and ownership outcomes. We show the cross-sectional effect of high compliance (above p90 of the compliance distribution) and CSR-Director appointments on the market-to-book value (columns 1 and 2) and the likelihood of having a credit rating upgrade (columns 3 and 4). We also show the longitudinal effect of CSR-Director appointments on institutional ownership (column 5) and foreign institutional ownership (column 6). *CSR-Directors* is an indicator for directors with expertise in sustainability, ethics, community engagement and compliance before the appointment. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable	MTBV		Upgrade		%Shareholding-Institutions	%Shareholding-Foreign Institutions
	(1)	(2)	(3)	(4)	(5)	(6)
CSR-Directors x High Compliance	0.133***		0.061**			
	(0.042)		(0.024)			
CSR-Directors	0.106	0.086	0.089	0.073	0.645***	0.492***
	(0.059)	(0.048)	(0.074)	(0.050)	(0.227)	(0.177)
High Compliance	0.420***		1.535**			
	(0.147)		(0.708)			
Control Variables	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effects	No	Yes	No	Yes	Yes	Yes
N	1,508	1,508	1,508	1,508	1,508	1,508
Adj. R^2	0.219	--	0.461	--	0.252	0.227
Estimation	OLS	IV	OLS	IV	Firm FE	Firm FE

Table 9

Heterogeneous Treatment Effects – Cost Pressures

In this table, we present the OLS estimates for the effect of CSR-Directors on companies with high debt (panel A) and high industry competition (panel B). The dependent variables in columns 1,2 and 3 are Fraction CSR Budget Spent, Number of Schedules, and Number of States, respectively. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *High Competition* is an indicator for the firm's main industry classification to be above the median of HHI distribution. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Panel A: Effect of Debt			
Dependent Variable	Fraction CSR Budget	Number of Schedules	Number of States
	(1)	(2)	(3)
CSR-Directors x Debt	0.082**	-1.016**	-1.533**
	(0.038)	(0.0427)	(0.672)
CSR-Directors	0.126**	-1.693**	-1.840**
	(0.057)	(0.708)	(0.834)
Debt	-0.102**	-0.053	-0.217
	(0.044)	(0.039)	(0.136)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj. R2	0.371	0.483	0.399
Panel B: Effect of Industry Competition			
CSR-Directors x High	0.055**	-1.225**	-1.407**
Competition	(0.027)	(0.543)	(0.638)
CSR-Directors	0.149**	-1.775**	-1.942**
	(0.064)	(0.681)	(0.852)
High Competition	-0.046**	-0.116	-0.089
	(0.022)	(0.059)	(0.056)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj. R2	0.356	0.437	0.363

Table 10

Heterogeneous Treatment Effects – Regulatory and Ownership Pressures

In this table, we present the OLS estimates for the effect of CSR-Directors on companies in regulated industries (panel A) and business group affiliates (panel B). The dependent variables in columns 1,2 and 3 are Fraction CSR Budget Spent, Number of Schedules, and Number of States, respectively. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry; *Regulated* is an indicator for the company to be in a regulated industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Panel A: Effect of Industry Regulation			
Dependent Variable	Fraction CSR Budget	Number of Schedules	Number of States
	(1)	(2)	(3)
CSR-Directors x	0.013	-1.071	1.186
Regulated	(0.009)	(0.883)	(0.946)
CSR-Directors	0.159***	-2.166***	-3.045***
	(0.048)	(0.564)	(0.927)
Regulated	0.037**	0.027	0.018
	(0.016)	(0.017)	(0.013)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj. R^2	0.404	0.448	0.380
Panel B: Effect of Business Group Affiliation			
CSR-Directors x	0.024	-0.938	-1.116
Business Groups	(0.019)	(0.578)	(0.856)
CSR-Directors	0.162***	-2.022***	-2.736***
	(0.045)	(0.503)	(0.652)
Business Groups	0.043**	0.545**	0.830**
	(0.021)	(0.223)	(0.392)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj. R^2	0.413	0.456	0.392

Table 11

Robustness of the CSR-Directors Classification

In this table, we present the firm-fixed effects and instrumental variable results with an alternate classification of CSR-Directors that excludes experience in "Health", "Safety", and "Risk". In columns 1 and 2, the dependent variable is Fraction CSR Budget Spent, and in columns 3 and 4, the dependent variable is the Number of Schedules, and Number of States, respectively. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets. *Board Size* is the number of directors on the board. *Board Independence* is the proportion of the board composed of independent non-executive directors. *Business Group* is an indicator for firms that are parts of a business group. *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stockholding. *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions. *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions. *ROA* is calculated as net income divided by total assets. *Debt* is calculated as the Debt-to-Total Assets ratio. *HHI* is the sum of squares of the market share of each firm in an industry. *Pre-Directors Supply* is the number of CSR-Directors within the industry group of a company in the 2010-013 period, scaled by the number of board positions in that industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable	FE	IV	IV	IV
	Fraction CSR Budget	Fraction CSR Budget	No. of Schedules	No. of States
	(1)	(2)	(3)	(4)
CSR-Directors	0.119** (0.045)	0.103** (0.033)	-1.090*** (0.530)	-2.665*** (0.715)
Control Variables	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes
Firm Fixed Effects	Yes	Yes	Yes	Yes
N	1,508	1,508	1,508	1,508
Adj R^2	0.483	--	--	--

Appendix A

Variable Description

Variable	Definition	Source
Fraction CSR Budget	The fraction of legally mandated CSR budget spent by the company (annual)	Prowess and Authors' Calculation
Number of Schedules	The number of Section 135 listed schedules used by a company to spend the CSR budget.	Ministry of Corporate Affairs, India
Number of States	Number of Indian states in which CSR projects of a company are implemented	Ministry of Corporate Affairs, India
High Compliance	Dummy equal to 1 if the company meets at least 80 percent (p90) of its CSR budget, 0 otherwise	Prowess and Authors' Calculation
No Pre-2013 CSR	Dummy equal to 1 if the company reported no CSR expenses in the 2010-2013 period, 0 otherwise	Prowess
CSR-Directors	Dummy equal to 1 if the director has expertise in sustainability, ethics, community engagement and compliance before the appointment, 0 otherwise.	BoardEx Director Profile; Manual Collection from Company websites
Pre-Directors Supply	The number of CSR-Directors in an industry segment in the 2010-2013 period, scaled by the number of board seats	BoardEx and authors' calculation
Accounting Experts	Dummy equal to 1 if the director has expertise as an Accountant, Audit Committee, Finance, Accounting, and Tax before the appointment, 0 otherwise.	BoardEx Director Profile
Legal Experts	Dummy equal to 1 if the individual has expertise as Attorney, Lawyer, and Legal before the appointment, 0 otherwise.	BoardEx Director Employment
CEO-Member	Dummy equal to 1 if the CEO is a member of the CSR committee, 0 otherwise.	BoardEx Director Profile; Manual Collection from Company websites
Committee Size	The number of directors on a board committee.	BoardEx Board Summary; Manual Collection from Company websites
Committee Independence	The proportion of independent non-executive directors on a board committee.	BoardEx Board Summary; Manual Collection from Company websites
Female-Led	CSR Committees chaired by a female director	BoardEx Director Profile; Manual Collection from Company websites

Firm Size	Natural logarithm of total assets	Compustat: at
Board Size	The number of directors on the board.	BoardEx: total number of directors on the board
Board Independence	The proportion of independent non-executive directors on the board.	BoardEx Board Summary
Business Group	Dummy equal to 1 if the firm is part of a business group, 0 otherwise	Prowess
% Shareholding-Promoters	Percentage of shares outstanding owned by and associated with the family with the controlling stakeholding	Prowess
% Shareholding-Institutions	Percentage of shares outstanding owned by institutions such as banks, insurance companies, hedge funds, and mutual funds	Prowess
% Shareholding-Foreign	Percentage of shares outstanding owned by foreign individuals and institutions	Prowess
% Shareholding-Foreign Institutions	Percentage of shares outstanding owned by foreign institutions	Prowess
ROA	Return on Assets calculated as net income divided by total assets.	Prowess
Debt	Debt-to-Total Assets ratio	Authors' calculation using Prowess
Upgrade	Dummy equal to 1 if the credit rating of the company has been Upgraded within the sample period, 0 otherwise	Prowess
Consumer-Focused Company	Dummy equal to 1 if a company is above the median of the sample distribution of Sales Turnover-to-Total Assets ratio, 0 otherwise	Authors' calculation using Prowess
Industry	2-digit NIC Code	Prowess
HHI	Sum of squares of the market share of each firm in an industry	Authors' Calculation

High Competition	Dummy equal to 1 if the firm if the HHI for the firm's main industry classification is below the median of HHI distribution, 0 otherwise	Constructed using HHI as defined above.
High Regulation	Dummy equal to 1 if the firm is classified as a regulated industry by Awasthi et al. (2019), 0 otherwise	Authors' Construction.

Appendix B

Classification of Director Expertise

CSR Expertise

1. We start with the BoardEx files on Director Backgrounds for the Rest of the World.
2. We sort the "Country" field to select only Indian companies.
3. For Directors of Indian companies, we focus on the following fields:
    a. Historic Board Roles
    b. Historic Non-board roles
    c. Historic Committee Roles
4. In these fields, we use a keyword search for the relevant experience of directors in CSR related issues:
    a. Stakeholder
    b. Ethics
    c. Corporate Social Responsibility
    d. Compliance
    e. Sustainability
    f. Environment
    g. Corporate Responsibility
    h. Safety (only included in the alternative measure for robustness)
    i. Security (only included in the alternative measure for robustness)
    j. Health (only included in the alternative measure for robustness)
    k. Risk (only included in the alternative measure for robustness)
5. Any director with at least one of these keywords in their previous career history is classified as a CSR director.
6. We use a fuzzy name matching algorithm to match the names of Indian directors in BoardEx and Prowess.

Appendix C

Announcement Returns of CSR Directors

In this table, we present the market reaction to the appointment of CSR-Directors. In panel A, we present the mean equally weighted CARs, and in panel B, we present the mean value-weighted CARs. Abnormal returns are calculated using the Fama-French-Carhart Four Factor model market-model. The estimation period is from day 250 to day 7 before the announcement date. The t-statistics are in the parentheses.

	Panel A: Equally weighted CARs		Panel B: Value Weighted CARs	
	(+3, -3)	(+1, -1)	(+3, -3)	(+1, -1)
CSR Directors	0.008 (1.99)	0.010 (2.54)	0.009 (2.09)	0.011 (2.60)
N	179	179	179	179

Appendix D

Companies with No Previous CSR Expenses

In this table, we present the effect of CSR-Directors in companies with no previous history of CSR. The dependent variables in columns 1,2 and 3 are Fraction CSR Budget Spent, Number of Schedules, and Number of States, respectively. *No Pre-2013 CSR* is an indicator for companies that reported no CSR expenses in 2010-2013. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable	Fraction CSR Budget	Number of CSR Schedules	Number of States
	(1)	(2)	(3)
CSR-Directors x No Pre-2013 CSR	0.086***	-0.229**	-0.631***
	(0.025)	(0.112)	(0.219)
CSR-Directors	0.159**	-1.962**	-2.072**
	(0.061)	(0.444)	(0.620)
No Pre-2013 CSR	-0.117***	1.134***	1.538***
	(0.036)	(0.344)	(0.345)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj R^2	0.501	0.463	0.383

Appendix E

Consumer-Focused Companies

In this table, we present the effect of CSR-Directors on consumer-focused companies. The dependent variables in columns 1,2 and 3 are Fraction CSR Budget Spent, Number of Schedules, and Number of States, respectively. *Consumer-Focused* is an indicator for companies above the median of the distribution of the Sales Revenue-to-Total Assets ratio. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable	Fraction CSR Budget	Number of CSR Schedules	Number of States
	(1)	(2)	(3)
CSR-Directors x Consumer-Focused	0.097***	0.346*	0.237
	(0.030)	(0.181)	(0.155)
CSR-Directors	0.127**	-1.863***	-2.674***
	(0.053)	(0.609)	(0.806)
Consumer-Focused	0.121**	1.028**	1.496**
	(0.048)	(0.429)	(0.562)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj R^2	0.458	0.414	0.321

Appendix F

Role of CEOs

In this table, we present the effect of CEOs in the CSR committees on our baseline results. The dependent variables in columns 1,2 and 3 are Fraction CSR Budget Spent, Number of Schedules, and Number of States, respectively. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable	Fraction CSR Budget	Number of CSR Schedules	Number of States
	(1)	(2)	(3)
CSR-Directors x CEO-Member	0.074**	0.088	0.234**
	(0.033)	(0.106)	(0.117)
CSR-Directors	0.143**	-1.655**	-1.943**
	(0.055)	(0.684)	(0.866)
CEO-Member	0.108**	0.538**	0.652**
	(0.051)	(0.220)	(0.319)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj R^2	0.447	0.435	0.335

Appendix G

Other Expertise in CSR Committees

In this table, we present the results for accounting experts (panel A) and legal experts (panel B) on CSR compliance and the cost of compliance. The dependent variables in columns 1,2 and 3 are Fraction CSR Budget Spent, Number of Schedules, and Number of States, respectively. *Accounting Experts* is an indicator for directors with expertise as an Accountant, Audit Committee member, Finance, Accounting, and Tax before the appointment. *Legal Experts* is an indicator for directors with expertise as Attorney, Lawyer, and Legal Committee members before the appointment. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Panel A: Effect of Accounting Experts			
Dependent Variable	Fraction CSR Budget	Number of Schedules	Number of States
	(1)	(2)	(3)
CSR-Directors x	0.057**	-0.521**	-0.227**
Accounting Experts	(0.022)	(0.223)	(0.111)
CSR-Directors	0.123***	-1.784**	-1.890**
	(0.042)	(0.676)	(0.866)
Accounting Experts	0.146***	-0.346**	-0.558**
	(0.033)	(0.139)	(0.237)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj. R^2	0.442	0.468	0.401
Panel B: Effect of Legal Experts			
CSR-Directors x Legal	0.095**	-1.003*	-1.213**
Experts	(0.044)	(0.518)	(0.536)
CSR-Directors	0.139***	-1.508**	-1.723**
	(0.043)	(0.664)	(0.751)
Legal Experts	0.086	0.128	0.137
	(0.037)	(0.123)	(0.118)
Control Variables	Yes	Yes	Yes

Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj. R^2	0.413	0.430	0.369

Appendix H

Female vs Male Led CSR Committees

In this table, we compare the effect of female and male-led CSR committees. The dependent variables in columns 1,2 and 3 are Fraction CSR Budget Spent, Number of Schedules, and Number of States, respectively. All specifications include the full set of controls: *Firm Size* is the natural logarithm of total assets; *Board Size* is the number of directors on the board; *Board Independence* is the proportion of the board composed of independent non-executive directors; *Business Group* is an indicator for firms that are parts of a business group; *%Shareholding-Promoters* is the percentage of shares outstanding owned by and associated with the family with the controlling stake holding; *%Shareholding-Institutions* is the percentage of shares outstanding owned by financial institutions; *%Shareholding-Foreign* is the percentage of shares outstanding owned by foreign individuals and institutions; *ROA* is calculated as net income divided by total assets; *Debt* is calculated as Debt-to-Total Assets ratio; *HHI* is the sum of squares of the market share of each firm in an industry. Robust standard errors, clustered at the firm level, are reported in the parentheses below the estimates. ***, **, and * denote statistical significance at 1%, 5%, and 10% levels, respectively.

Dependent Variable	Fraction CSR Budget	Number of CSR Schedules	Number of States
	(1)	(2)	(3)
CSR-Directors	0.161***	-2.156***	-3.039***
	(0.047)	(0.558)	(0.920)
Female-Led CSR Committees	0.119	0.186	0.339
	(0.090)	(0.130)	(0.245)
Control Variables	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
N	1,508	1,508	1,508
Adj R^2	0.413	0.456	0.392