ABSTRACT

This study investigates the relationship between corporate social responsibility (CSR) expenditure and future stock price crash risk in the Indian context. Given India's unique financial, legal, and regulatory framework, where a regulation mandating spending on CSR activities has been introduced through Companies Act, 2013, prior research cannot be generalized to this context. The study therefore examines the impact of CSR expenditure incurred in 2014-15 on crash risk for 2015-16. A sample of 688 listed Indian companies and two measures have been used to explore the relationship: the proportion of total expenditure by the firm on CSR and compliance with the 2% mandatory expenditure on CSR introduced through Companies Act, 2013. Ordinary Least Squares (OLS) and quantile regression were used to analyse the relationship between CSR expenditure and crash risk. The results show that there is no significant relationship between CSR expenditure and crash risk and suggest that mandatory CSR spending alone may not be an effective way to reduce crash risk. Compliance with the mandatory CSR regime does not affect crash risk, possibly because the disclosure effect plays a crucial role. As long as the companies are doing CSR and making disclosure, compliance with the regime does not matter. However, the study's findings may not be generalized to other countries as the Indian context is unique, and the mandate of CSR spending in India stands out from other nations.

Keywords: stock market crash, CSR spending, stock price, downside risk, mandatory CSR regime, bad news hoarding.