DID MANDATORY CSR COMPLIANCE IMPACT ACCOUNTING CONSERVATISM?
EVIDENCE FROM A NATURAL EXPERIMENT

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Abstract

In 2013, India became the first country in the world to require firms to spend two percent of their average profit on corporate social responsibility (CSR) activities. Taking advantage of this unique event, we examine the link between accounting conservatism and CSR compliance. We find a positive relation between conditional conservatism and CSR and this relation is stronger for firms that have stronger governance and weaker for family firms. Further, we find that current period accounting conservatism is negatively related to next period CSR spending. Our results are robust to a battery of tests. While policy makers may have intended to increase CSR activities by Indian firms, our results suggest that firms use accounting policies and negative accruals strategically to mitigate the costs of CSR compliance as well as contracting costs arising from concerns of capital providers.

Keywords: *CSR, conservatism, Board of directors, Family firms, India*

I. INTRODUCTION

In 2013, India implemented new Corporate Social Responsibility (CSR) regulation, the Companies Act 2013, requiring companies whose net worth exceeds INR 5 billion, or whose annual turnover exceeds INR 10 billion, or whose profit exceeds INR 5 million in any financial year, to spend two percent of their profits, averaged over the past three years, on CSR.[1,2]

The objectives of this study are two-fold. Our first research objective is to examine the financial reporting implications of CSR compliance under the new regulation by Indian firms. Though financial reporting is not the focus of the regulation, mandatory CSR compliance is likely to influence firms' financial reporting decisions because the new regulation is analogous to a corporate tax of two percent on profits and firms have to spend the amount on government mandated local-community focused CSR activities without any direct *quid pro quo* (Dharmapala and Khanna 2018).[3] Specifically, we focus on accounting conservatism and predict a positive relation between accounting conservatism and CSR compliance for two reasons. First, concurrent research finds that the mandatory CSR spending by Indian firms resulted in a decline in firms' profitability as well as stock market valuation (Manchiraju and Rajgopal 2017 and Mukherjee et al. 2018). Thus, Indian firms are motivated to mitigate the financial burden imposed by the mandatory CSR compliance by strategically enhancing accounting conservatism to decrease

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[1]The exchange rate between Indian rupee and the U.S. dollar is approximately INR 70 = $1. It is estimated about 8,000 Indian firms meet these requirements and collectively will spend about $2 billion annually on CSR (Chhabra 2014).

[2] The Companies Act 2013 does not specify penalties for non-compliance. If a firm fails to spend the prescribed amount, it is required to disclose the reasons for non-compliance in the annual report (Kapoor and Dhamija 2017). However, recently, the Indian government passed a Bill specifying that unspent CSR funds should be transferred into an escrow account and should be used within three years of transfer. Further, any unspent annual CSR fund must be transferred to one of the funds designated by the Companies Act. Executives of firms that fail to comply face monetary penalty or jail time of up to three years or both (BusinessLine 2019).

[3]Examples of activities that are considered CSR include, eradicating hunger, poverty, and malnutrition, promoting preventive health care and sanitation, promoting education, gender equality, and environmental sustainability. Examples of activities that are *not* considered as CSR spending include, activities undertaken outside India, expenditures incurred exclusively for the benefits of the employees or their families, and contributions to political parties (Kapoor and Dhamija 2017).

earnings used to determine the extent of mandatory CSR spending. We refer to this as the *burden containment* explanation. Second, firms are incentivized to enhance accounting conservatism to minimize contracting costs by allaying concerns of capital providers who may not favourably view the mandated CSR activities undertaken by firms. Assuring capital providers via conservative reporting is an important issue especially in India, which suffers from weak investor protection as well as corruption and inefficiency (Allen et al. 2012). We refer to this as the *signalling to capital providers* explanation.

Our second research objective is to examine two mechanisms that are likely to enhance or exacerbate the positive relation between accounting conservatism and CSR compliance: the board of directors and family-controlled firms. Prior research finds that conditional conservatism is positively associated with governance quality (Lara et al. 2009). Thus, we conjecture that a strong and diligent board of directors, who are more likely to enhance accounting conservatism are also likely to ensure CSR compliance. Next, we examine family firms because in India, a sizable fraction of firms is comprised of family-controlled businesses. Prior research finds that family firms are incentivized to mitigate legal liability and agency conflicts with other stakeholders and thus are more conservative than non-family firms (Chen et al. 2014; Raithatha and Shaw 2019). However, prior research also finds a negative relation between family control and CSR (El Ghoul et al. 2016). Thus, it is an empirical question whether family control enhances or exacerbates the positive relation between accounting conservatism and CSR compliance.

Our study is motivated by the following reasons. First, to the best of our knowledge, India is the first country in the world to mandate CSR compliance and thus presents a unique opportunity to study the link between financial reporting and CSR compliance. The issue of whether CSR should be mandated remains controversial and empirical evidence on the potential relation

between CSR compliance and financial reporting would be of interest to regulators not only in India but also in other jurisdictions. Second, while prior research has examined the relation between CSR and financial reporting, in general, the focus has been on settings where CSR compliance is voluntary (Gelb and Strawser 2001; Hong and Andersen 2011; Kim et al. 2012; Scholtens and Kang 2013; and Litt et al., 2013). Also, prior research reports mixed findings on the relation between CSR and conservatism. For example, while Francis et al. (2013), Martinez-Ferroro et al. (2015), and Cheng and Kung (2016) find a positive relationship between CSR and accounting conservatism, Radhakrishnan et al. (2018) find a negative relation between CSR and accounting conservatism. One reason for the mixed findings could be the challenge in establishing the causal link between CSR and financial reporting, especially in settings where CSR is voluntary. We exploit the exogeneous shock provided by the Indian Companies Act 2013 and the staggered implementation of the mandatory CSR spending as a quasi-natural experiment to better attribute causality from increased CSR spending to changes in conditional accounting conservatism.

We test our hypotheses on a sample of 1,159 non-financial firms (3,303 firm-year observations) listed on the Bombay Stock Exchange (BSE) that were required to comply with the CSR regulation in any year between 2015 to 2017. Since firms have an option not to comply with CSR and provide an explanation for the non-compliance instead, there is a potential self-selection bias associated with firms that chose to comply. To address this issue, we use a two-stage approach. In the first stage we estimate a regression of the determinants of the decision to comply and obtain the Inverse Mills Ratio (IMR). We next estimate a regression of conservatism on CSR compliance, controls, and the IMR. We use the firm-specific conditional conservatism measure based on Khan and Watts (2009) as our primary measure of conservatism.

We document several key findings. First, consistent with our conjecture, we find a positive relation between conditional conservatism and CSR compliance (significant at the 0.01 level). This finding holds for both an indicator variable that represents CSR compliance as well as a continuous measure of CSR spending. Also, our results hold when we use an alternate conditional conservatism measure based on Ball and Shivakumar (2005) as well as other robustness tests involving first-difference and difference-in-difference models. Second, consistent with our conjecture, we find that the positive relation between conditional conservatism and CSR compliance is stronger for firms with stronger governance. Third, we find that the positive relation between conditional conservatism and CSR compliance is weaker for family firms. Fourth, we estimate a regression of CSR spending in year $t+1$ on current period CSR spending and our measures of conditional conservatism and find that the coefficient on conservatism is negative and significant, indicating that enhancing conservatism in the current period appear to reduce the CSR burden in the next period. Finally, we examine whether firms recognize income-decreasing (negative) discretionary accruals as opposed to income-increasing (positive) discretionary accruals to reduce the CSR burden. We estimate a regression of the absolute value of negative discretionary accruals on CSR compliance and find that the coefficient on CSR compliance is positive and significant. However, when we estimate a regression of positive discretionary accruals, the coefficient on CSR compliance is not significant. Overall, our findings support the notion that firms appear to use accounting policies strategically to mitigate the costs of mandatory CSR compliance as well as to minimize contracting costs arising from the potential concerns of capital providers who may not favourably view the mandated CSR activities undertaken by firms.

The next section summarizes related research and develops our hypotheses. Section III describes the research design, measures of conservatism, and the empirical models. Section IV describes or sample followed by results and discussion. Section VI concludes.

II. RELATED RESEARCH AND HYPOTHESES

CSR and Accounting Conservatism

Conditional accounting conservatism is a key aspect of a firm's earnings quality by reflecting bad news more quickly than good news (Basu 1997).[4] One of the primary reasons for a firm to follow conditional conservative accounting practices is to reduce the information asymmetry arising from managerial incentives for behaving opportunistically and undertaking suboptimal projects. Rational contracting parties anticipating the opportunistic behaviour of the managers protect themselves by increasing the cost of capital both for debts and equity (LaFond and Watts 2008; Zhang 2008). Consequently, firms would seek to signal the legitimacy of their accounting and business practices through conditional accounting conservatism, which acts as an effective governance mechanism by emphasizing timely loss recognition and verified recognition of gains (Watts 2003; Callen et al. 2016). Ball and Shivakumar (2005) state that firms with conditional accounting conservatism would tend to identify poorly performing projects early to avoid precipitating debt covenant violations. Such identification would result in timely corrective actions, such as abandonment of loss-making projects or replacement of poor performing managers. This would reduce the cost of capital both from debt and equity (Li 2015).

In India, even though, corporate dependence on equity capital is low, dependence on bank debt has increased in the last decade (Raithatha and Shaw 2019). The regulatory reforms in the banking sector including Corporate Debt Restructuring (CDR) in 2001, The Securitization and

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[4] On the other hand, unconditional conservatism utilizes information known at the inception of assets and liabilities (Basu 2005).

Reconstruction of Financial Assets and Enforcement of Securities Interest (SARFESI) Act 2002, have strengthened creditors' rights to access the collateral of defaulting firms without recourse to judicial process (Vig 2013), and have empowered creditors to scrutinize loans and to demand more transparent financial statements from debtors. Consequently, there has been an increased demand for conditional conservative accounting in reporting practices of Indian firm (Gormley et al. 2011 Raithatha and Shaw, 2019). The Companies Act 2013 is a unique political, economic, and social development in India which predicts a relationship between CSR and accounting conservatism, as discussed below.

We expect a positive relation between accounting conservatism and CSR and offer two explanations for this prediction. Mandated CSR compliance in India is mostly in the area of societal development with little to no relationship with the firm's core operations. It thus increasingly exposes firms to the demands of multiple stakeholders which are often conflicting and inconsistent (Luo et al. 2017). For example, an organization's CSR spending on local community development can restrict spending on employee welfare or on environmentally sustainable production. In addition, given the limited scope for strategic CSR activities that may benefit the bottom line financially, managers may adopt CSR policies symbolically (Luo et al. 2013 and Afsharipour and Rana 2013) and remain unaccountable for the usage of firm's resources (Jensen 2002). In the absence of clear criteria to judge managerial actions objectively, managers are often incentivized to divert firm resources to pursue their own interests (such as enhancing their own reputation for social consciousness while sacrificing the interests of financial claimants and society at large (Jensen 2002; Chih et al. 2008)).[5] This creates distrust and intensifies internal

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[5] In Indian case there are evidences that that the firm's promoters have deliberately diverted funds spend in CSR to their personal benefit through investing in trust and other NGOs (Narayanan 2015). With respect to mandatory CSR expenditure in India industrialist and philanthropist Ratan Tata stated that: "*You will have a registered NGO, you will have the money, the money goes to the NGO and it may be three or four years before the whole thing explodes in a*

agency problems leading financial stakeholders to increase the cost of capital for the firms with higher CSR expenditures, ultimately leading to the decline of firm performance. Studies on the causal effect of firm's mandatory CSR expenditure on its performance in India have found that it has generally resulted in the decline in the stock valuation of the firms (Manchiraju and Rajgopal 2017) and also in the decline in firm's profitability measured in terms of return on equity (Mukherjee et al. 2018). Consequently, firms choosing to undertake CSR expenditures are incentivized to enhance conditional conservatism to signal the reliability and relevance of their financial statements to reduce the cost of capital (Zhang 2008; LaFond and Watts 2005) and also provide an incentive for *ex ante* efficient investment decisions. The protections to capital providers are especially valuable in India, which suffers institutionally from weak investor protection as well as corruption and inefficiency (Allen et al. 2012). Thus, Indian firms are incentivized to enhance accounting conservatism to minimize contracting costs and allay concerns of capital providers who may not favourably view the mandated CSR activities undertaken by firms. We refer to this as the *signalling to capital providers* explanation.

In addition to mitigating contracting costs, Indian firms are also incentivized to mitigate CSR compliance costs. This is because CSR compliance is analogous to corporate tax of 2 percent on profits, whereby the firms have to spend the amount on government mandated local-community focused CSR activities without any direct *quid pro quo* (Dharampala and Khanna 2018). However, unlike taxes, the compliance of CSR spending is weak as the Companies Act 2013 does not specify any enforcement mechanism or punishment for non-compliance though recently, the Indian government has proposed monetary penalty and jail time for non-compliance. Among the 100 companies surveyed by KPMG on CSR spending in 2017, 37 companies spent less than the

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series of fraudulent operations, money being given to people that don't exist, or causes that are subterfuge for something else" White (2014).

mandated amount, and the majority of these companies stated that they were still "exploring opportunities" (KPMG 2017). Moreover, firms undertaking CSR expenditures are also motivated to shift income by being more conditionally conservative and by reporting economic losses more proactively than economic gains. This would reduce both current and future period CSR obligations.[6] Overall, as the CSR burden of a firm increases, it is motivated to reduce the CSR burden by enhancing conditional conservatism. We refer to this as the *burden containment* explanation. Together, the above two explanations lead to our first hypothesis:

Hypothesis 1: Conditional accounting conservatism is positively associated with mandatory CSR compliance.

Corporate Governance and the Conservatism-CSR Relation

The board plays a key role in terms of the firm's strategic decision-making processes (Hillman et al. 2000), serving as advisors for key investment, financing, mergers and acquisitions, and other impactful decisions (Andres and Vallelado 2008), including accounting policies. Among emerging economies, Sarkar et. al (2008) and Shaw et al. (2016) showed that in India, a strong board helps curb opportunist earnings management and increases firm performance respectively. Liu and Lu (2007) and Chen et al. (2007) find similar evidence for Chinese and Taiwanese firms respectively. The board is also involved in the design of contracts between the firm and debt issuers (Lara et al. 2009; Bakar et al. 2018) and the firm's financial statements, ratified by the board, play an important role in debt contracting. In this respect, financial statements that are conservative reduce information asymmetry between insiders and the other stakeholders. This helps the board to mitigate agency conflicts and to conduct its monitoring and supervisory role more effectively

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[6]Anecdotal evidence suggests that the practice of profit underreporting is prevalent in India after the enactment of CSR regulation in India. The Registrar of Companies a body under the Ministry of Corporate Affairs of India has questioned more than 200 companies for leaving out dividend income earned during the three preceding years while calculating the profits for the purpose of CSR spending (Arora and Sikarwar 2016).

improving the contracting efficiency (Ball and Shivakumar 2005). The above line of arguments suggests that a strong board would demand conditionally conservative financial statements to reduce agency problems by more effectively monitoring management and the contracts they enter into especially those with providers of capital (Beekes and Brown 2006; Lara et al. 2009).

Separately, corporate governance has been viewed as facilitating the pursuit of both CSR initiatives (Harjoto and Jo 2011) and voluntary CSR disclosure (Chan et al. 2014). Mason and Simmons (2014) argued that CSR contributes to organization's objectives to deliver ethical performance and to satisfy stakeholders' demand for fair treatment. Li and Zhang (2010) examined CSR in the emerging markets (Brazil, Russia, India, and China) and found that governance (as reflected in a stronger board) is an important force behind CSR intensity. In the Indian context, Clause 49 of the listing agreement to the Indian stock markets and the Companies Act specifically assigns responsibility to the board of directors in terms of ensuring the firm's compliance with legal requirements and norms[7] including mandated spending on CSR in accordance with the Indian law. Diligence in ensuring compliance with this CSR spending requirement not only advances stakeholder interests but also helps directors' personal reputation by providing a signal that they are performing their monitoring and advisory role with due diligence. The above line of reasoning leads to our second hypothesis:

Hypothesis 2:   The positive relation between accounting conservatism and CSR is greater for firms with stronger corporate governance than for firms with weaker corporate governance.

Family Control and the Conservatism-CSR Relation

Ownership type can impact CSR (Dyer and Whetten 2006; Berrone et al. 2010; 2012; Cennamo et al. 2012; Cruz et al. 2014; Calza et al. 2016). In the case of family firms, since the

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[7] See http://www.mca.gov.in/Ministry/reportonexpertcommitte/chapter4.html
and http://indianboards.com/files/clause_49.pdf

families in question often have a longer strategic horizon and are more concerned about their personal and familial reputation (Berrone et al. 2010; 2012;Cruz et al. 2014) they may well care more about the community and external natural environment, in which they are embedded (Sharma and Irving 2005) and thus have a strong preference for CSR. Families view their image and reputation based on CSR efforts as being connected to the firms they own, and therefore are concerned about not damaging their reputation through irresponsible actions and may additionally strive to advance it through positive CSR efforts. Supporting this notion, Berrone et al. (2010) found that family firms in the U.S. strove to protect their image and reputation through superior environmental performance relative to their nonfamily counterparts. Similarly, in the Indian context, Cordeiro et al. (2018) found that family firms commit to higher level of CSR engagement to protect their image and reputation.

If family firms are subjected to mandatory CSR expenditures, they have a higher propensity to comply with these regulations in order to enhance family legitimacy and reputation in the market and to maintain a stable relationship with the government (Gul and Ng 2017). However, this could lead to lower accounting conservatism for two reasons. First, family firms design their voluntary disclosure norms to preserving family wealth (Gomez-Mejia et al. 2011; Pattnaik et al. 2013) and as a result tend to favour opacity with a reluctance to divulge strategic information to outsiders (Witt and Redding 2013). They are also likely to provide fewer earnings forecasts and conference calls (Chen et al. 2018), report low-quality accounting numbers (Yang 2010), disclose less on corporate governance practices (Ali et al. 2007) and have fewer disclosures in the annual reports (Vural 2018). Further, family firms are more prone to fraud and hence auditors perceive them to be having more severe agency conflicts (Krishnan and Peytcheva 2019). In the Indian context, family firms are less reluctant to venture for outward FDI because of their aversion to scrutiny by

regulators, investors, and credit rating agencies (Bhaumik et al. 2010). Second, for family firms the reputation of the firm is closely tied with the family itself any decrease in profit resulting from CSR activities would adversely affect their perceived reputation and this is likely to reduce propensity towards bad news recognition.

As discussed earlier, family firms that have higher levels of CSR spending are subject to higher agency costs and prior research finds that family firms are incentivized to mitigate legal liability and agency conflicts with other stakeholders and thus are more conservative than non-family firms (Chen et al. 2014; Raithatha and Shaw 2019). Thus, it is an empirical question whether family control enhances or exacerbates the positive relation between accounting conservatism and CSR compliance. Thus, we propose the following non-directional hypothesis to test the role of family firms in moderating the relation between accounting conservatism and CSR:

Hypothesis 3: Family firms moderate the relation between accounting conservatism and CSR.

III. RESEARCH DESIGN

Measures of Accounting Conservatism

Our primary measure of the dependent variable is Khan and Watts (2009)'s CSCORE measure. They model accounting conservatism as a function of a firm's size, market-to-book ratio, and leverage. We use a three-year average of CSCORE (calculated over years t, $t-1$ and $t-2$) to rule out the year-to-year fluctuations in the firm-level variables. We refer to this measure as *CONKW*. We use the conservatism measure based on Ball and Shivakumar (2005) as an alternate measure of conservatism and refer to this as *CONBS*. Once again, we use a three-year average to calculate *CONBS*.

Measures of CSR Compliance

We measure CSR in two ways. We use an indicator variable, *CSRD* which equals 1 if the firm's CSR expenditure is more than or equal to the amount mandated under the regulation and 0 otherwise. As part of sensitivity analyses, we use *CSREXP*, the natural logarithm of (1 + actual CSR spending) as an alternative, continuous measure of CSR compliance.

We utilize a number of controls. We construct a composite index of corporate governance from five board characteristics: board size, board independence, board attendance, outside directorship, and CEO duality. In India, these attributes of the board are found to be associated with effective governance. The use of a composite governance index has an advantage in that the measure does not rely on a single dimension of the board, but on multiple dimensions of the board (Bozec and Bozec 2012). Following Hawas and Tse (2016), we first determine the industry-year median for board size, board independence, board attendance, and outside directorship to capture the varying effect of industry and year on the effectiveness of governance (Donker and Zahir 2008). We include the entire population of listed firms in the BSE for the year in question when calculating the industry-year median. Next, we code these variables as 1 if the value pertaining to a firm in a given year is higher than the industry-year median, and 0 otherwise. For CEO duality, we code the variable as 1 if the CEO and the Chairman of the board are different and 0 otherwise. Finally, we construct the governance index, *CGINDEX* as the average of the five binary variables constructed in the previous step. Thus, *CGINDEX* takes the value between 0 to1 and higher the value of *CGINDEX*, stronger is the firm's governance in the industry for the given year.

We define a firm as family controlled and family managed if the controlling family of the firm besides having substantial shareholding has representation on the board and in the management of the firm. Following Singh et al. (2014), we code a firm to be family controlled if

two of the following three conditions are satisfied: (1) the promoters[8] had a stake of 20 percent or greater in the firm; (2) a member of the promoter family was on the board of the firm; and/or (3) a member of the promoter family was the chairperson of the board; otherwise it is coded 0. Next, we code a firm to be family managed if they satisfy any two of the following conditions: (1) a promoter or promoter's family member was the CEO of the firm; (2) a promoter or promoter family was an executive director; and/or (3) more than one member of the promoter family were executive directors. Thereafter, a firm is coded as *FAMILY* if it is both family-controlled and family-managed simultaneously; otherwise it is coded as 0. We interact *CGINDEX* and *FAMILY* with CSR compliance variables.

Other control variables that are used in the model are as follows: We first control for firm's availability of cash and its ability to pay for its short-term obligation by free cash flow (*FCLOW*) and financial slack of the firm measured as the ratio of current asset by current liability (*CRATIO*) (Kim et al. 2008). Since firms can undertake accounting conservatism for tax avoidance, we control for downward management of taxable income by incorporating book-tax difference (*BTD*) following Desai and Dharampala (2006). Following McWilliams et al. (2006) we control for various firm level attributes, such as size (*LN(SALES))*, profitability (*ROA*), advertisement intensity *(ADVINT)* and R&D intensity (*RDINT*). We also control for other ownership structure of the firm beside family ownership by including a business group (*BUSGROUP*) dummy variable which takes the value of 1 if the firm belongs to a business group, and 0 otherwise. We include an indicator if the firm is affiliated with a foreign multinational corporation (*MNC*) and also include

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[8]Under India's Companies Act 2013, promoters are the person who is identified by the company to have control over its affairs either through direct or indirect shareholding or otherwise. Following Ashwin et al. (2015) the total promoter holding is the sum of the family promoter holding and the corporate holding which addresses the indirect holding of the promoters.

institutional holdings *(INSTHOLDG)*. Finally, our model also includes firm and year fixed effects to capture time-variant confounds and macroeconomic shocks respectively.

Empirical Model

Our objective is to study the causal effect of CSR on the conditional accounting conservatism of the firm. A sample selection issue arises when the firms that chose to comply with the CSR regulation and undertake CSR activities are inherently different from the firms that do not choose to comply. To correct for this selection bias, we estimate a two-stage Heckman model (Heckman 1979) as suggested by Lennox et al. (2011) to determine the causal effect of meeting the CSR expenditure on accounting conservatism. We first estimate a probit regression on the binary choice variable *CSRD* on factors that affect firm's choice of undertaking CSR activities and calculate the inverse Mills ratio (IMR). In the second-stage, we include the IMR from the first-stage, as an additional variable to account for the sample selection bias in estimating the causal effect of CSR on accounting conservatism. As recommended by Lennox et al. (2011) and Fang et al. (2018), we impose an exclusion restriction in the first stage model to mitigate the problems of misspecification and multicollinearity which may result in misidentification of the IMR. We include variables in the first-stage that are correlated with the firm's decision to comply with CSR but do not affect the dependent variable of interest, i.e., accounting conservatism, and are therefore excluded in the second-stage of the selection model. The choice of excluded variables should also have a theoretical underpinning in explaining the variation in the first-stage, i.e., CSR choice but not in the second-stage. We identify two variables that satisfy the exclusion restrictions: the average sales in an industry for a given year *(INDSALES)* and average assets in an industry for a given year *(INDASSETS)*. In issues related to CSR, industry context has received substantial attention as a relevant unit of analysis (Delmas and Toffel 2008). Because a firm's reluctance to

divulge strategic information, consumers and other stakeholder groups may rely on industry-level behavior to infer about firm's behavior (King and Santor 2008). We surmise that firms that belong to an industry with high average sales (*INDSALES*) are likely to have higher CSR expenditure. First, these firms on average have higher inflow of revenue capital that increases unabsorbed slack in their operation resulting in higher CSR spending (Xu et al. 2015). Second, prior research finds that firms undertake CSR to satisfy the demands of stakeholders (Donaldson and Preston 1995; Freeman 2010) who contribute to the firm's wealth creating capacity (Cordeiro and Tewari 2015) and are bearers of risk (Post et al. 2002). Among the group of diverse stakeholders' customers constitute an important group since they are the important source of revenue for the firm (McWilliams and Siegel 2001). Therefore, firms belonging to industries with higher average sales are more dependent on their customers and are likely to undertake higher CSR expenditure as a product differentiation strategy to maintain their competitiveness (McWilliams and Seigel 2001; Boehe and Cruz 2010). However, firms belonging to industries with high average assets (*INDASSETS*) would undertake CSR expenditures differently. Industries with higher average assets are more likely to have generic resources already committed to specific uses and these are difficult to redeploy for alternative uses (Voss et al. 2008).. Thus, *ceteris paribus,* firms in these industries have fewer resources available to invest in CSR and consequently have lower CSR expenditures (Xu et al. 2015). These firms also have weaker incentives to invest in CSR activities since firms with higher asset levels have more resources making them more resistant to stakeholder's demands (Arora and Dharwadkar 2011). Thus, we predict that firms in industries with high average sales (assets) are more (less) likely to have higher CSR expenditure and consequently are more likely to comply with the CSR regulation. Importantly these variables are

unlikely to be directly associated with the firm's accounting conservatism, and thus satisfy the exclusion restriction. Thus, our first-stage model is as follows:

$$CSRD = \pi_0 + \pi_1 INDSALES + \pi_2 INDASSETS + \pi X + v \tag{1}$$

where *CSRD* is an indicator variable which takes the value 1 if the firm's CSR spending is equal to or more than the mandated amount under the regulation and 0 otherwise. *INDSALES* and *INDASSETS* are, respectively, the average sales and assets in the industry of the focal firm in a given year. *X*s are all the other control variables used in the second-stage of the estimation. Appendix A provides definitions for all variables used in this study. To capitalize the longitudinal nature of our data, we applied the method suggested by Wooldridge (1995), Dustmann and Rochinna-Barrachina (2007), and Fang et al. (2018) to calculate the *IMR* using annual probit estimation, which provides a separate estimate of IMR for each sample year instead of an *IMR* calculated from pooling all the years together.

Next, we estimate the following model to test our hypotheses by including the *IMR* to account for the selection bias:

$$CONKW_{it} = \beta_0 + \beta_1 CSRD_{it} + \beta_2 IMR_t + \gamma X_{it} + \mu_i + \delta_t + \varepsilon_{it} \tag{2}$$

where, *CONKW* is the firm-specific measure of conditional accounting conservatism based on Khan and Watts (2009). We also use an alternate measure of conditional conservatism, *CONBS* based on Ball and Shivakumar (2005). Our variable of interest is *CSRD* as explained above. We also use a continuous measure of CSR compliance (*CSREXP*) as an alternate measure. *X* is matrix of control variables. To control for time-invariant confounds as well as time-specific effects, we estimate the model using fixed effect panel estimation where we have controlled for both firm-level and year-level fixed effects, μ_i and δ_t respectively. β_1 captures the causal effect of CSR on accounting conservatism and β_2 estimates the direction of the selection bias. Hypothesis 1 predicts

$\text{ß}_1 > 0$. To test hypothesis 2 and 3 we include interaction variables, which are, respectively, *CSRD × CGINDEX* and *CSRD × FAMILY*. Hypothesis 2 predicts a positive coefficient on *CSRD × CGINDEX*. Hypothesis 3 does not offer a prediction on the coefficient sign on *CSRD × FAMILY*.

IV. SAMPLE

We use the *PROWESS* database to identify our sample firms. This database provides comprehensive firm-level financial information data drawn from the annual reports of the firms. The first year for which CSR data are available under the new regulation is 2015. We collect the necessary data for years 2015 through 2017 for firms listed on the BSE. We exclude all firm-year observations with negative net worth and firms that were delisted from the BSE. Our final sample consists of 1,159 unique firms representing 3,303 firm-year observations.

Univariate Analyses

Descriptive statistics for our sample are provided in Table 1. The mean (median) value of *CONKW* is 1.966 (1.521), indicating that firms in our sample exhibit conditional accounting conservatism. We find that about 42.40 percent of the sample firms have complied with the CSR regulation; thus, more than half of the sample firms were not in compliance with the regulation. The yearly distribution of compliance with the CSR statute shows that only 28 percent, 47 percent and 53 percent of the firms complied with the regulations in 2015, 2016 and 2017 respectively. The average value of the logarithmic transformation of the CSR expenditure is 1.739 which is equivalent to about Rs.56.61 million. The average (median) value of *CGINDEX* is 0.636 (0.60) which implies that the average firm in our sample has more than three (0.636 X 5) out of the five board attributes that are higher than the industry median. About 59.20 percent of the sample are controlled and managed by families, 32.8 percent are affiliated with business groups and 5.90 percent of the sample are MNCs. On average, 10.71 percent is the average holding of institutional

investors. The mean (median) value of ROA is of 11.30 percent (10 percent). The mean values of *ADVINT* and *RDINT* are, as a percentage of sales, respectively, 0.9 percent and 0.3 percent. The *CRATIO* has a mean (median) value of 2.432 (1.432) and 23.2 percent of the sample firms are audited by Big4 auditors.

[Insert Table 1 About Here]

Pearson/Spearman correlations among the variables are provided in Table 2. We find that the variable of interest, *CONKW* is negatively correlated with *CSRD* (significant at the 0.05 level), inconsistent with hypothesis 1. However, this correlation is not a measure of causal effect as it may be subject to both sample selection bias and omitted variable bias which are addressed in our multivariate analysis. Among the other variables, we observe a statistically significant correlation between several variables. We test for multicollinearity using variance inflation factor (VIF) and found it to be less than 5 in all the cases, suggesting that multicollinearity is not a serious concern for our data (Myers and Myers 1990).

[Insert Table 2 About Here]

V. RESULTS

Before we discuss the results of hypothesis 1 on the relation between accounting conservatism and CSR compliance, we first discuss the results of our first-stage model tabulated in Appendix B. We report the results for each year separately, with column 4 reporting the results for all years combined. As expected, the coefficients on the two exogenous variables, *INDASSETS* and *INDSALES* are negative and positive, respectively and both are significant at the 0.05 level across all columns except *INDSALES* is not significant in 2017. This shows that firms belonging to industries with high average asset are less likely to comply with the CSR regulation whereas firms in industries with high average sales are more likely to comply with the CSR regulation. The

results also indicate that *FAMILY* firms and firms affiliated with a *BUSGROUP* are more likely to comply with the CSR expenditure requirement, whereas large firms, firms with high *ADVINT*, *RDINT*, *CRATIO*, and *ROA* are less likely to comply with the CSR regulation. We next perform an exclusion test to verify whether *INDASSETS* and *INDSALES* verify the exclusion criteria. Since we have two exogenous variables for a single endogenous variable *CSRD*, we perform the Sargan over-identification test by regressing the residuals from the second-stage estimation on the exogenous variables and then performing a Wald test.[9] The value of the test-statistic is 1.37 with a *p-value* of 0.48, indicating that we cannot reject the null hypothesis that *INDASSETS* and *INDSALES* are indeed exogenous to the second-stage model.

[Insert Appendix B About Here]

We report the results from the our second-stage model to study the effect of CSR compliance on accounting conservatism in Table 3. In column 1 we report the base line estimation where we have *not* controlled for the *IMR*. In columns 2-4 we include the *IMR* to correct for the selection-bias. The specification in column 2 is used to test Hypothesis 1 on the causal effect of CSR compliance on accounting conservatism. In columns 3 and 4 we include the interaction of *CSRD* with *CGINDEX* and, separately, with *FAMILY* to test Hypotheses 2 and 3, respectively. Finally, in column 5 we include both interaction variables together. We include fixed effects for firm and year and standard errors are clustered at the firm-level.[10]

The results in column 1 indicate that when the selection bias is not corrected, the coefficient on *CSRD* is not significant. In column 2, when the *IMR* is included, the coefficient on *CSRD* is

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[9] We perform the Sargan test to test the null hypothesis of validity of the over-identifying restriction by regressing (fixed effect regression) the error from the second stage model, which includes the IMR, on *INDASSETS* and *INDSALES*. The test statistics is nR^2 from the regression which follows a Chi square distribution with the degrees of freedom equal to the number of excluded variables minus the number of endogenous variables.
[10] We obtain consistent results with bootstrap standard error.

0.9875 and significant at the 0.01 level, indicating that firms that comply with the mandatory CSR regulation have higher conditional accounting conservatism. Specifically, firms that comply with the CSR regulation have on average, 0.54 standard deviation higher conditional accounting conservatism compared to firms that did not comply with the CSR regulation. Also, the coefficient on the *IMR* is -0.690 and is significant at the 0.01 level, indicating a negative selection bias in the effect of CSR on accounting conservatism. This finding is consistent with the notion that firms with limited resources would restrain CSR spending but are incentivized to mitigate contracting costs and adopt conservative reporting to appeal to capital providers.[11] In summary, once we control the negative selection effect, we find the causal effect of CSR to be positive on accounting conservatism. Overall, the results are consistent with Hypothesis 1.

Turning to the results in column 3, we find that the effect of CSR compliance on accounting conservatism is stronger for firms that have stronger governance as predicted in Hypothesis 2. The coefficient on *CSRD × CGINDEX* is 0.3455 and significant at the 0.10 level. This finding is consistent with the prior research that finds better governed firms have higher accounting conservatism (Krishnan and Visvanathan 2008; Lara et al. 2009). In column 4, we find that the coefficient on *CSRD × FAMILY* is -0.3483 and significant at the 0.01 level and supporting the moderating role of family firms (Hypothesis 3). Prior research finds that family firms are more conservative than non-family firms (Chen et al. 2014; Raithatha and Shaw 2019) and family firms are less likely to engage in CSR (El Ghoul et al. 2016). Thus, the negative coefficient on *CSRD × FAMILY* is consistent with prior research. Specifically, we find that the effect of CSR on accounting conservatism for *FAMILY* firm is 0.8617 (1.210 – 0.3483) which is smaller than the

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[11]Note decreasing current year earnings by increasing conditional conservatism not only minimizes current year CSR burden but also future CSR burdens because the mandated CSR spending is based on average earnings over a three-year period.

effect on non-family firms (1.21). Results in column 5 indicate that when we include both the interaction terms simultaneously, the interaction results continue to hold. Overall, the results suggest that firms complying with the mandated CSR regulation have higher accounting conservatism however this relation varies with the firm's governance quality and the dominance of the family through their board and management representation.

[Insert Table 3 About Here]

Robustness Analyses

The results in Table 3 indicate that our results are robust to controlling for sample selection bias as well as firm fixed effects, mitigating the concern that our results may be driven by omitted variables representing some time-invariant firm characteristics. In this section, we present the results of additional robustness tests to address concerns about conservatism and CSR measures and model specifications.

Alternate Measure of CSR Compliance

We re-estimate the models in Table 3 after replacing the *CSRD* dummy with a continuous measure of CSR compliance, *CSREXP*, the logarithmic transformation of one plus the actual CSR expenditure. Untabulated results indicate that the coefficient on *CSREXP* is positive and significant at the 0.01 level when the *IMR* is not included. When the *IMR* is included, the coefficient on *CSREXP* continues to be positive and significant (ß = 0.1825, *p*-value < 0.01) and the coefficient on *IMR* is negative and significant. In terms of economic significance, one percentage increase in CSR expenditure in log scale would increase conditional accounting conservatism by 0.1 standard deviation. We also find that the coefficients on *CSRD* × *CGINDEX* and *CSRD* × *FAMILY* are, respectively, positive and negative (both are significant at the 0.01 level). Overall, these findings

are consistent with the results in Table 3 and indicate that our results are robust to using a continuous measure of CSR compliance.

Alternate Measure of Conditional Conservatism

We re-estimate the models in Table 3 using an alternate measure of conditional conservatism based on Ball and Shivakumar (2005). Following, Khan and Watts (2009), Lee et al. (2015), and Raithatha and Shaw (2019), we estimate conditional conservatism as a function of firm-level variables, firm size (i.e., log of the market value of equity), market-to-book ratio, and leverage and the results are in Table 4.[12] We use both *CSRD* and *CSREXP* to measure CSR compliance. Results indicate that after controlling for sample selection bias, the coefficient on CSR is positive and significant at the 0.05 level for both measures of CSR compliance, consistent with Hypothesis 1. In columns 3 and 8, the coefficients on *CSR × CGINDEX* are positive and significant at the 0.01 level, consistent with Hypothesis 2. Similarly, the results in column 4 and 9 indicate that the coefficients on *CSR × FAMILY* are negative and significant at the 0.01 level, consistent with Hypothesis 3. The coefficients on the interaction variables continue to be significant in columns 5 and 10. Overall, these results are consistent with the results in Table 3 and indicate that our results are robust to an alternate measure of conditional conservatism.

<center>**[Insert Table 4 About Here]**</center>

Changes in CSR Compliance Analyses

To provide further evidence on the causal relationship between CSR compliance on accounting conservatism, we measure the annual change in accounting conservatism following the switch in the firm's CSR compliance status from not meeting the CSR mandate in the previous year to meeting the mandate in the present year or *vice versa*. In our sample period there were 365

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[12] The mean and median values of *CONBS* are, respectively, 0.32 and 0.30.

firms that switched their CSR expenditure from non-compliance in the previous year to compliance in the present year and 100 firms from compliance to non-compliance. We perform two sets of analyses.

First, we execute the first difference test where we compare the change in accounting conservatism from year *t-1* to *t* using the subsample of firms that changed their CSR compliance (ΔCSR) between the above two years, the results are provided in Table 5. We report the results of the change in the CSR from non-compliance to compliance in columns 1 and 2 and the result for firms changing their CSR status from compliance to non-compliance in columns 3 and 4. In columns 1 and 3 the dependent variable is $\Delta CONKW$ and in columns 2 and 4 the dependent variable is $\Delta CONBS$. In all the estimations the control variables are also in terms of first difference specifications. However, in all estimations we expect that the CSR compliance sub-samples are not random, so to account for sample selection bias we include the *IMR* in all estimations. We find that as firms change from non-compliance to CSR compliance, there is an increase in accounting conservatism when conservatism is measured by *CONKW* (significant at the 0.05 level). However, the coefficient on ΔCSR is not significant when conservatism is measured by *CONBS*. In contrast, we find that as firms switch from compliance to non-compliance, there is a sharp fall in accounting conservatism for both *CONKW* and *CONBS* (both are significant at the 0.05 level). Untabulated results indicate that the coefficient on $\Delta CSR \times CGINDEX$ is positive while the coefficient on $\Delta CSR \times FAMILY$ is negative and significant for firms switching from non-compliance to compliance and conservatism and these findings hold for both measures of conservatism. However, the coefficients on the interaction variables are not significant when CSR change is captured by firms switching CSR regime from compliance to non-compliance. Overall, the above findings support the causal relation between CSR compliance and accounting conservatism.

We next apply the difference-in-difference (D-i-D) method to compare the *changes* in accounting conservatism between firms with changes in their CSR compliance status (treatment firms) and firms that did not change their compliance status (control firms). We match firms that switched their CSR compliance status either from non-compliance to compliance or vice versa with firms that did not undergo any change in their CSR compliance status by industry and year. The matching is performed using Mahalanobis distance matching (MDM) based on four firm-level variables: *LN(SALES)*, *ROA*, *CRATIO* and *FCFLOW*. We do one-to-one nearest neighbor match without replacement. Out of the 365 firms that changed their CSR compliance status from non-compliance to compliance, we are able to find 245 control firms that meet the above criteria resulting in a total sample of 980 observations. Similarly, we are able to match 87 firms that changed their CSR compliance status from compliance to non-compliance, resulting in a total sample of 348 observations. The results of these analyses are provided in columns 5 through 8. In columns 5 and 7 the dependent variable is *CONKW* while in columns 6 and 8 it is *CONBS*. *TREATMENT* is an indicator variable that equals 1 if the firm has a change in CSR compliance and 0 otherwise. *CHANGE* is an indicator variable that equals 1 for the period when there is a change in CSR compliance and 0 otherwise. The coefficient on the variable of interest *TREATMENT* × *CHANGE* represents the DiD effect of CSR compliance status on accounting conservatism. We find that the coefficient on *TREATMENT* × *CHANGE* is positive and significant for both measures of accounting conservatism for firms changing from non-compliance to compliance (see columns 5 and 6). On the other hand, the coefficient is not significant in columns 7 and 8 for firms changing from compliance to non-compliance. Overall, results of the change analyses in Table 5 indicate that accounting conservatism has increased for firms changing their

CSR status from non-compliance to compliance; there is also some support that accounting conservatism has decreased for firms changing their status from compliance to non-compliance.

[Insert Table 5 About Here]

Impact of voluntary CSR spending on Accounting Conservatism

Our final robustness analysis is to exclude firms that engaged in CSR even before CSR compliance was mandated. We perform two tests. First, we re-estimate our main analysis after excluding firms that voluntarily engaged in CSR prior to the regulation. Untabulated results show a significant positive relation between accounting conservatism and CSR compliance and this relationship is stronger for firms with stronger corporate governance and weaker for family-controlled firms. Second, we conduct a falsification test by estimating our models using data from the period *prior* to the mandate. If our results are driven by the mandatory CSR compliance, then results using pre-regulation data should be weaker or insignificant. To test this conjecture, we use data from 2005 to 2013 and re-estimate our models. We use both an indicator variable for CSR compliance as well as a continuous measure (CSR spending). Untabulated results indicate that none of our variables of interest, including the interaction variables are significant. These findings are a stark contrast to our findings based on data from the post-regulation period and support the notion that our results are likely driven by the regulation mandating CSR compliance. Collectively, the results from the above robustness analyses provide assurance that our results are robust to alternate measures of CSR compliance, accounting conservatism and model specifications.

Cross-Sectional Analyses

Next, we discuss the results of several cross-sectional analyses that further explore the relation between accounting conservatism and CSR compliance.

Positive vs. Negative CSR Compliance

Motivated by McWilliams and Siegel (2001)'s argument that firms that voluntarily spend on CSR over and above what is required by the law represents the conscious CSR effort, we re-estimate our model to examine the effect of positive (spending more than the required amount) *vs.* negative (spending less than the required amount) CSR compliance on accounting conservatism. We segregate our total CSR expenditure into two variables. *POSCSREXP* is the log transformation of one plus the excess of actual CSR spending over the mandated amount and *NEGCSREXP* is the log transformation of the absolute deficit of the CSR spending over the mandated amount. We also include interactions of these two variables with *CGINDEX* and *FAMILY*. We expect a positive coefficient on *POSCSREXP*, i.e., the excess spending should have positive effect on the accounting conservatism and a negative coefficient on *NEGCSREXP*. We estimate the models with the *IMR*. Untabulated results indicate that consistent with our expectation, the coefficient on *POSCSREXP* is positive and significant, suggesting that accounting conservatism is increasing in CSR spending over and above the mandated requirement. On the other hand, the coefficient on *NEGCSREXP* is not significant. We also find that the effect of voluntary CSR expenditure on accounting conservatism is stronger for firms with stronger governance and this finding holds for both measures of accounting conservatism. However, this finding does not hold when CSR spending falls short of the mandated amount. In general, we did not find family firms to have any significant effect on how CSR deviation from the mandated amount affect conditional conservatism except when accounting conservatism is measured by *CONBS*. In short, these results show that the effect of CSR compliance on accounting conservatism is primarily driven by firms voluntarily spending on CSR over and above the legally mandated amount.

Effect of Industry Characteristics on the CSR-Conservatism Relationship

Prior research finds that industry characteristics influence firms' CSR spending. We examine whether our findings vary across industry characteristics. We classify industries into four contextual categories based on pollution, competition, munificence, and dynamism. For each category, we further partition the sample into two sub-categories (polluting *vs.* non-polluting, competitive *vs.* non-competitive, high *vs.* low munificence, and high *vs.* low dynamism).[13] Untabulated results indicate that in almost all the estimations the coefficient on *CSRD* is positive and significant at the 0.05 level. In particular, the positive relation between CSR compliance and accounting conservatism holds for non-polluting industries as well.

Relation Between Accounting Conservatism and Future CSR Spending

To provide further support for the *burden containment* explanation, we examine whether there is a relation between accounting conservatism in the current period and next period CSR spending. This analysis is motivated by the notion that if firms enhance accounting conservatism in the current period in order to minimize future CSR spending, then we should observe a negative

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[13] Following the government of India classification, firms in metallurgy, chemical, petrochemical, coal, thermal power, building material, paper, brewing, pharmaceuticals, fermentation, textile, leather and mining are classified as polluting industries and firms in other industries are classified as non-polluting industry. We use the Herfindahl-Hirshman index (HHI) to calculate the industry level competition based on all the listed firms on BSE for each year separately and calculate the average HHI across years. We code industries whose HHI is below (above) the 25th (75th) percentile of the HHI distribution in a given year as a non-competitive (competitive) industry. Industry characterization based on availability of external resources and its volatility is an important contextual determinant of CSR expenditure of the firm (Chen et al. 2017). Managers of the firms operating in a high munificence environment have more discretion and power to undertake strategic decision and thus have more incentive to undertake CSR related activities (Lee et al. 2016). This is likely to result in higher accounting conservatism. On the other hand, the industry dynamism reflects high volatility and unpredictability in the external resource availability to the industry. Firms belonging to industry with high dynamism are likely to face lower likelihood of survival and higher variability of performance and are less likely to undertake CSR activities. Following Keats and Hitt (1988) and Palmer and Wiseman (1999) we measure industry munificence as five-year average industry sales growth. The sales growth was calculated in two steps. In the first step we estimated a five-year rolling regression of the logarithmic transformation of total industry sales on the index variable of year. In the second step we measure the industry munificence as the antilog of the regression coefficient. The industry dynamism is measured by the antilog of the standard error of the regression.

relation between accounting conservatism in year *t* and CSR spending in year *t+1*. The results of this analysis are provided in Table 6. In columns 1 and 2, we do not include other control variables but include them in columns 3 and 4. The dependent variable is *CSREXP$_{t+1}$* and as expected, the coefficient on *CSREXP$_t$* is positive and significant at the 0.01 level. Turning to the variable of interest, the coefficient on *CONKW* is negative and significant at the 0.01 level in columns 1 and 3. Similarly, the coefficient on *CONBS* is also negative and significant at the 0.01 level in columns 2 and 4. Overall, these findings are consistent with the *burden containment* explanation, i.e., current period accounting conservatism appears to decrease CSR spending in the next period.

[Insert Table 6About Here]

High vs. Low Leverage Firms

We also perform a cross-sectional test to provide further support for the *signalling to capital providers* explanation. We conjecture that the positive relation between accounting conservatism and CSR compliance should be stronger (weaker) for the high (low) leverage firms since these firms are likely to face higher (lower) contracting costs and hence, are motivated to enhance accounting conservatism to allay concerns of capital providers who may not favourably view the mandated CSR activities undertaken by these firms. We code *HIGHLEV* as 1 (0) for firms that have leverage equal to or above (below) the median values of all firms listed on the BSE. We reestimate our models with *HIGHLEV*, *CSRD/CSREXP*, and *HIGHLEV × CSRD/CSREXP*. If the incentive to enhance accounting conservatism is primarily driven by debt contracting costs, the coefficient on the interaction variable should be positive and significant. Untabulated results indicate that, consistent with the results in Table 3, the coefficients on the CSR compliance variables continue to be positive and significant at the 0.01 level. The coefficient on *HIGHLEV* is positive and significant at the 0.01 level, indicating that accounting conservatism is higher for

firms with high leverage relative to firms with low leverage, consistent with prior research. However, the coefficient on the interaction variable is negative and significant at the 0.01 level, indicating that the relation between CSR compliance and accounting conservatism is *lower* for high leverage firms than low leverage firms. These findings hold for both measures of CSR compliance and accounting conservatism. These findings are inconsistent with the notion that the increase in accounting conservatism due to CSR compliance is driven by debt contracting costs. Thus, the results in Table 6 suggest that our results are primarily driven by the *burden containment* explanation rather than the *signal to capital providers* explanation.

Relation between Negative Discretionary Accruals and CSR Spending

Similar to adopting conservative accounting policies, firms could also recognize income-*decreasing* discretionary (abnormal) accruals to contain the costs of CSR compliance. If this is the case, we predict a positive relation between CSRD compliance and the magnitude of income-decreasing discretionary accruals but not income-*increasing* discretionary accruals. We use the modified Jones model to estimate the discretionary accruals and the results are in Table 7. The dependent variables are *NEGDACC* (the absolute value of income-decreasing discretionary accruals) and *POSADCC* (income-increasing discretionary accruals). We find that the coefficients on *CSRD* and *CSREXP*, the variables of interest are positive (see columns 1 and 3) and significant at the 0.05 level, consistent with our prediction. However, the coefficients on the variables of interest are *not* significant in columns 2 and 4 where the dependent variable is *POSADCC*. In short, these results are consistent with the notion that firms that are complying with CSR have higher income-decreasing discretionary accruals but not income-increasing discretionary accruals. These findings are consistent with the *burden containment* explanation. These findings are also consistent

with Rajgopal and Tantri (2018) that the Companies Act 2013 reduced firms' intrinsic motivation to spend on CSR, especially for those that voluntarily engaged in CSR before the mandate.

[Insert Table 7 About Here]

VI. CONCLUSIONS

Taking advantage of India's Companies Act of 2013 which mandates certain firms to comply with CSR spending, we examine the link between accounting conservatism and CSR compliance. We find that conditional conservatism is increasing in CSR compliance and this relation is stronger for firms that have stronger governance and weaker for family firms. We also find that CSR compliance is associated with higher income-decreasing discretionary accruals but not income-increasing discretionary accruals. Overall, the findings are consistent with firms strategically enhancing accounting conservatism to decrease earnings used to minimize CSR compliance costs. Our findings are robust to controlling for sample selection bias and other sensitivity checks.

We make two contributions to the literatures on CSR and accounting conservatism. First, while there is some prior research on the relation between CSR and financial reporting, including accounting conservatism, much of this research examines *voluntary* CSR compliance. By examining a setting where CSR compliance is mandated, our study provides empirical evidence on the causal relation between CSR compliance and conditional accounting conservatism.

Second, our findings highlight the roles of the strong corporate governance and family ownership in determining the relationship between CSR and accounting policy. We provide evidence that stronger boards enhance the positive relation between CSR compliance and accounting conservatism. On the other hand, we find that CSR compliance increased conditional accounting conservatism less for family firms relative to non-family firms. These findings are

potentially important in a growing economy like India where, traditionally, the corporate sector is dominated by family firms which are more opaque and less inclined to divulge proprietary information to the market.

Our findings have important implications for regulators and policy makers in India and elsewhere as well as investors and others. The finding that current period accounting conservatism is negatively related to next period CSR spending should be a concern to regulators and policy makers who may have intended to increase CSR activities by Indian firms. On the contrary, our results suggest that firms use accounting policies and negative accruals strategically to mitigate the costs of mandatory CSR compliance. These findings are also relevant to regulators in other jurisdictions that are considering legislation on CSR.[14] Overly conservative financial reporting policies could also mask a firm's actual underlying economic performance and thus, have important implications for creditors, investors, and financial analysts. Similarly, auditors should be concerned about attempts by firms to minimize CSR spending by engaging in income-decreasing earnings management. Future research could examine whether firms engage in real earnings management activities in addition to conservative financial reporting to mitigate CSR compliance costs. Also, future research could examine whether the mandatory CSR spending affects creditors' perceptions and cost of debt.

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[14]In the last decade, a number of countries, such as Indonesia, Denmark, France, Philippines, Spain, Argentina, Brazil, Norway, European Union, and India have introduced regulation on CSR (Gatti et al. 2018).

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Appendix A
Variable Definitions

ADVINT	Advertising expenses divided by total sales;
BIG4	An indicator variable that equals 1 if firm is audited by one of the big4 auditor, 0 otherwise;
BODATTEND	The natural logarithm of average attendance by board members;
BODINDEP	The proportion of independent directors on the board of directors;
BODSIZE	The natural logarithm of board size;
BTD	Book-tax difference based on Desai and Dharmapala (2006);
BUSGROUP	An indicator variable that equals 1 if firm is affiliated to business group, 0 otherwise;
CAPEX	Capital expenditure during the year divided by total assets;
CEODUAL	An indicator variable that equals 1if the CEO act as a chairperson, 0 otherwise;
CFO	Cash from operations scaled by total assets;
CHANGE	An indicator variable that equals 1 for the period when there is a change in CSR compliance, 0 otherwise;
CGINDEX	A composite governance index based on five board attributes, board size, board independence, board attendance, outside directorship, and CEO duality. We first determine the industry-year median for the above variables and code these variables as 1 if the value pertaining to a firm in a given year is higher than the industry-year median, 0 otherwise. For CEO duality, we code 1 if the CEO and the Chairman of the board are different and 0 otherwise. Next, we construct *CGINDEX* as the average of the five binary variables constructed in the previous step. *CGINDEX* takes the value between 0 to 1 and higher the value of *CGINDEX*, stronger is the firm's governance in the industry for the given year.
CONKW	3-year average of conditional conservatism based on Khan and Watts (2009);
CONBS	3-year average of conditional conservatism based on Ball and Shivakumar (2005);
CRATIO	Current assets divided by current liabilities;
CSRD	An indicator variable that equals 1 if a firm's CSR spending is equal to or more than the mandatory requirement, 0 otherwise;
CSREXP	The natural logarithm of (1+ actual CSR spending);
ΔCSR	An indicator variable that equals 1 if there is a change in the firm's CSR compliance status (from compliance to non-compliance or vice-versa), 0 otherwise;
FAMILY	An indicator variable that equals 1 for firms that are family controlled and family managed. We code a firm to be family controlled if two of the following three conditions are satisfied: (1) the promoters had a stake of 20 percent or greater in the firm; (2) a member of the promoter family was on the board of the firm; and/or (3) a member of the promoter family was the chairperson of the board; otherwise it was coded 0. We code a firm to be family managed if they satisfy any two of the following conditions: (1) a promoter or promoter's family member was the CEO of the firm; (2) a promoter or promoter family was an executive director; and/or (3) more than one member of the promoter family were executive directors (Singh et al. 2014);
FCFLOW	Earnings before interest and tax minus change in capital expenditure;
INDASSETS	The average assets of the industry of the focal firm in a given year;

INDSALES	The average sales of the industry of the focal firm in a given year;
INSTHOLDG	The percentage of shareholdings by institutional investors;
LN(AGE)	The natural logarithm of firm age since incorporation;
LN(SALES)	The natural logarithm of total sales;
MNC	An indicator variable that equals 1 if firm is affiliated to multinational corporations, 0 otherwise;
NEGDACC	The absolute value of income-decreasing discretionary accruals estimated from the modified Jones model;
NEGCSREXP	The natural logarithm of (1+ the deficit of the actual CSR spending less the mandated amount);
OUTDIRECT	The natural logarithm of average outside directorship;
POSCSREXP	The natural logarithm of (1+ the excess of the actual CSR spending over the mandated amount);
POSDACC	Income-increasing discretionary accruals estimated from the modified Jones model;
RDINT	The proportion of research and development expenses scaled by total sales;
ROA	Return on assets calculated as earnings before interest and tax scaled by total assets; and
TREATMENT	An indicator variable that equals 1 if the firm has made a change in CSR compliance.

Appendix B
Predicting CSR Spending

	CSRD			
	2015	2016	2017	All Years
VARIABLES	(1)	(2)	(3)	(4)
INDASSETS	-0.3061***	-0.2603***	-0.1858**	-0.2224***
	(0.102)	(0.100)	(0.094)	(0.057)
INDSALES	0.2199**	0.2536**	0.0464	0.1436**
	(0.100)	(0.104)	(0.101)	(0.057)
CGINDEX	0.1303	-0.1351	-0.0232	-0.0174
	(0.200)	(0.195)	(0.187)	(0.110)
FAMILY	0.1611*	0.1652*	0.0001	0.0999**
	(0.093)	(0.086)	(0.084)	(0.050)
FCFLOW	1.4876*	0.9646	-0.5427	0.1504
	(0.768)	(0.655)	(0.492)	(0.339)
MNC	0.1868	-0.1016	-0.1158	-0.0501
	(0.201)	(0.193)	(0.194)	(0.112)
BIG4	-0.1472	-0.0443	0.0488	-0.0436
	(0.119)	(0.105)	(0.107)	(0.063)
BUSGROUP	0.2801***	0.1695*	0.0783	0.1748***
	(0.099)	(0.091)	(0.090)	(0.054)
CRATIO	-0.0751***	-0.0464***	-0.0052	-0.0250***
	(0.020)	(0.014)	(0.010)	(0.006)
ADVINT	-2.4746**	-3.7778***	0.0931	-2.1975***
	(1.167)	(1.230)	(2.064)	(0.675)
LN(SALES)	-0.3508***	-0.4521***	-0.2872***	-0.3388***
	(0.047)	(0.047)	(0.043)	(0.025)
ROA	-2.2973**	-1.9352**	0.1648	-0.7780*
	(0.999)	(0.850)	(0.636)	(0.439)
LN(AGE)	0.0030	0.0030	0.0023	0.0024**
	(0.003)	(0.002)	(0.002)	(0.001)
RDINT	-4.8930	-11.8743**	-4.0239	-7.2789***
	(5.379)	(4.717)	(4.696)	(2.802)
INSTHOLDG	-0.0181***	-0.0219***	-0.0244***	-0.0220***
	(0.005)	(0.004)	(0.004)	(0.002)
BTD	-0.9899	0.6637	-2.3348*	-0.6655
	(1.410)	(0.994)	(1.292)	(0.656)
2016				0.2912***

				(0.062)
2017				0.3573***
				(0.063)
Constant	2.5666***	3.0612***	2.9138***	2.3956***
	(0.727)	(0.680)	(0.661)	(0.389)
Observations	1,092	1,109	1,102	3303

This table presents the results of a regression of CSR compliance on the determinants of CSR compliance for a sample of Indian firms representing years 2015 through 2017. *CSRD* equals 1 if a firm's CSR spending is equal to or more than the mandatory requirement, 0 otherwise. See Appendix B for variable definitions. Robust standard errors are in parentheses clustered at the level of firms. ***, **, and * indicate, respectively, statistical significance at the 0.01, 0.05, and 0.10 levels.
An indicator variable that equals 1 if a

Table 1
Descriptive Statistics

	N	Mean	P25	Median	P75	Min	Max	S. D.
CONKW	3303	1.966	0.409	1.521	3.134	-3.575	7.597	1.836
CSRD	3303	0.424	0	0	1	0	1	0.494
CSREXP	3303	1.739	0.095	1.361	2.681	0	8.937	1.703
CGINDEX	3303	0.636	0.4	0.6	0.8	0	1	0.23
FCFLOW	3303	0.094	0.049	0.091	0.138	-0.522	0.581	0.099
FAMILY	3303	0.592	0	1	1	0	1	0.492
MNC	3303	0.059	0	0	0	0	1	0.235
BIG4	3303	0.232	0	0	0	0	1	0.422
BUSGROUP	3303	0.328	0	0	1	0	1	0.47
CRATIO	3303	2.432	1.045	1.432	2.329	0.028	90	4.482
ADVINT	3303	0.009	0	0	0.004	0	1	0.036
LN(SALES)	3303	8.707	7.669	8.697	9.783	-2.303	12.262	1.627
ROA	3303	0.113	0.064	0.1	0.146	-0.311	0.571	0.079
LN(AGE)	3303	17.709	3.401	4.19	29	1.946	96	20.686
RDINT	3303	0.003	0	0	0.002	0	0.059	0.009
INSTHOLDG	3303	10.711	0.12	5.08	17.3	0	93.47	13.353
BTD	3303	0.02	0.002	0.015	0.033	-0.323	0.298	0.036

This table presents the descriptive statistics for a sample of Indian firms representing years 2015 through 2017. See Appendix B for variable definitions.

Table 2
Correlations

Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
CSRD [1]	1															
CONKW [2]	-0.11*	1														
CSREXP [3]	0.37*	-0.16*	1													
CGINDEX [4]	0.07*	-0.05*	0.27*	1												
FCFLOW [5]	0.03*	-0.11*	0.13*	-0.04*	1											
FAMILY [6]	0.00	0.05*	-0.11*	0.05*	-0.01	1										
MNC [7]	-0.02	-0.08*	0.03	-0.10*	0.08*	-0.19*	1									
BIG4 [8]	0.05*	-0.12*	0.27*	0.09*	0.09*	-0.16*	0.24*	1								
BUSGROUP [9]	0.09*	0.01	0.14*	0.16*	-0.08*	-0.02	-0.17*	0.11*	1							
CRATIO [10]	0.00	-0.18*	-0.02	-0.06*	0.05*	-0.07*	0.06*	0	-0.06*	1						
ADVINT [11]	0.03	-0.06*	0.05*	0.03	0.10*	0.02	0.02	0.07*	0.01	-0.02	1					
LN(SALES) [12]	0.04*	0.10*	0.61*	0.28*	0.03	-0.05*	0.03	0.22*	0.18*	-0.25*	-0.13*	1				
ROA [13]	0.04*	-0.13*	0.22*	-0.01	0.75*	-0.02	0.09*	0.12*	-0.07*	0.08*	0.14*	0.11*	1			
LN(AGE) [14]	0.10*	-0.22*	0.12*	0.03	0.03	-0.02	0.10*	0.09*	0.08*	0.07*	0	0.06*	0.03	1		
RDINT [15]	0.01	-0.05*	0.17*	0.08*	0.07*	-0.01	0.02	0.09*	0.01	-0.01	-0.01	0.12*	0.12*	0	1	
INSTHOLDG [16]	0.01	-0.11*	0.52*	0.25*	0.05*	-0.08*	0.02	0.28*	0.13*	-0.05*	0.06*	0.54*	0.11*	0.03	0.16*	1
BTD [17]	0.03*	-0.07*	0.19*	0.04*	0.24*	-0.01	0.02	0.09*	0.07*	0.02	0.03	0.12*	0.34*	0.07*	0.21*	0.13*

This table presents the Pearson correlations among the variables used in the study.

Table 3
The Relation Between Accounting Conservatism and CSR Compliance

VARIABLES	(1) CONKW	(2) CONKW	(3) CONKW	(4) CONKW	(5) CONKW
CSRD	**0.0801**	**0.9875*****	**0.7694*****	**1.2100*****	**0.9679*****
	(0.063)	**(0.132)**	**(0.182)**	**(0.202)**	**(0.216)**
CSRD × CGINDEX			**0.3455***		**0.3680***
			(0.208)		**(0.222)**
CSRD × FAMILY				**-0.3483*****	**-0.3503****
				(0.130)	**(0.136)**
CGINDEX	-0.1822	-0.1791	-0.3281	-0.1671	-0.3322*
	(0.157)	(0.190)	(0.216)	(0.179)	(0.172)
FAMILY	-0.0422	-0.0510	-0.0465	0.0736	0.0822
	(0.127)	(0.152)	(0.167)	(0.166)	(0.205)
FCFLOW	0.3873	0.1918	0.1879	0.1991	0.1913
	(0.468)	(0.553)	(0.533)	(0.670)	(0.538)
MNC	-1.1029**	-1.0194***	-1.0530***	-0.9865**	-1.2588***
	(0.489)	(0.349)	(0.364)	(0.383)	(0.346)
BIG4	-0.0044	-0.0037	-0.0006	-0.0198	-0.0173
	(0.220)	(0.265)	(0.258)	(0.259)	(0.227)
BUSGROUP	-0.0158	-0.0573	-0.0513	-0.0627	-0.0584
	(0.133)	(0.089)	(0.120)	(0.115)	(0.089)
CRATIO	0.0424***	0.0496***	0.0491***	0.0491***	0.0485***
	(0.013)	(0.013)	(0.014)	(0.013)	(0.013)
ADVINT	-7.9026*	-7.6872	-7.9091	-8.3480	-8.5369
	(4.583)	(5.220)	(5.114)	(5.130)	(7.800)
LN(SALES)	0.2654***	0.3338***	0.3341***	0.3361***	0.3363**
	(0.074)	(0.107)	(0.092)	(0.100)	(0.128)
ROA	-4.0298***	-3.5798***	-3.5655***	-3.6268***	-3.6620***
	(0.738)	(0.710)	(0.666)	(1.011)	(0.723)
LN(AGE)	-0.0020	-0.0024*	-0.0025	-0.0023	-0.0024
	(0.002)	(0.001)	(0.002)	(0.002)	(0.002)
RDINT	-9.2447	-8.8513	-8.5010	-9.2662	-8.9761
	(12.903)	(13.157)	(14.445)	(13.919)	(10.304)
INSTHOLDG	0.0014	0.0076	0.0074	0.0082	0.0079
	(0.007)	(0.008)	(0.010)	(0.009)	(0.010)
BTD	4.8933***	4.9594***	4.9280***	4.8586***	4.8609***
	(1.105)	(0.892)	(0.919)	(1.180)	(1.233)

IMR	-	-0.6900***	-0.6922***	-0.6997***	-0.6947***
	-	(0.092)	(0.105)	(0.118)	(0.110)
Constant	1.5965**	0.6404	0.7297	0.5488	0.6684
	(0.654)	(0.869)	(0.800)	(0.850)	(1.108)
Firm FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	3,303	3,303	3,303	3,303	3303
R-squared	0.658	0.666	0.666	0.667	0.668
Number of firms	1,159	1,159	1,159	1,159	1,159

This table presents the results of a regression of conditional conservatism (*CONKW*) on CSR compliance (*CSRD*), strength of corporate governance (*CGINDIEX*), family firms (*FAMILY*), and controls for a sample of Indian firms representing years 2015 through 2017. *CSRD* equals 1 if a firm's CSR spending is equal to or more than the mandatory requirement, 0 otherwise. IMR is the Inverse Mills Ratio obtained from model (1). See Appendix B for variable definitions. Bootstrap standard errors are in parentheses. clustered at the level of firms. ***, **, and * indicate, respectively, statistical significance at the 0.01, 0.05, and 0.10 levels.

Table 4
Alternative measure of conservatism

VARIABLES	CSR=CSRD					CSR=CSREXP				
	(1) CONBS	(2) CONBS	(3) CONBS	(4) CONBS	(5) CONBS	(6) CONBS	(7) CONBS	(8) CONBS	(9) CONBS	(10) CONBS
CSR	-0.0015	0.0183**	-0.0115	0.0411***	0.0108	0.0082***	0.0085***	-0.0203***	0.0139***	-0.0149***
	(0.004)	(0.009)	(0.012)	(0.010)	(0.016)	(0.002)	(0.002)	(0.004)	(0.002)	(0.004)
CSR × CGINDEX			0.0473***		0.0486***			0.0415***		0.0415***
			(0.014)		(0.014)			(0.005)		(0.005)
CSR × FAMILY				-0.0357***	-0.0361***				-0.0102***	-0.0102***
				(0.007)	(0.008)				(0.003)	(0.003)
CGINDEX	0.0101	0.0102	-0.0102	0.0114	-0.0095	0.0085	0.0089	-0.0601***	0.0107	-0.0583***
	(0.009)	(0.009)	(0.011)	(0.009)	(0.012)	(0.010)	(0.009)	(0.012)	(0.009)	(0.012)
FAMILY	-0.0086	-0.0088	-0.0082	0.0039	0.0047	-0.0077	-0.0075	-0.0068	0.0053	0.0060
	(0.008)	(0.008)	(0.008)	(0.008)	(0.009)	(0.007)	(0.008)	(0.007)	(0.008)	(0.008)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
IMR	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,303	3,303	3,303	3,303	3,303	3,303	3,303	3,303	3,303	3,303
R-squared	0.279	0.281	0.285	0.289	0.293	0.287	0.288	0.311	0.292	0.315
Number of firms	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159	1,159

This table presents the results of a regression of conditional conservatism (*CONBS*) on CSR compliance (*CSRD*), strength of corporate governance (*CGNDIEX*), family firms (*FAMILY*), and controls for a sample of Indian firms representing years 2015 through 2017. *CSRD* equals 1 if a firm meets mandatory CSR compliance and 0 otherwise. *CSREXP* is the natural logarithm of (1+ actual CSR spending). IMR is the Inverse Mills Ratio obtained from model (1). See Appendix B for variable definitions. Bootstrap standard errors are in parentheses. clustered at the level of firms. ***, **, and * indicate, respectively, statistical significance at the 0.01, 0.05, and 0.10 levels.

Table 5
Change Analysis

VARIABLES	First Difference Model				Difference-in-Difference Model			
	Non-Compliance to Compliance		Compliance to Non-Compliance		Non-Compliance to Compliance		Compliance to Non-Compliance	
	ΔCONKW	ΔCONBS	ΔCONKW	ΔCONBS	CONKW	CONBS	CONKW	CONBS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ΔCSR	0.6867**	0.0173	-2.4453***	-0.0473**				
	(0.320)	(0.016)	(0.340)	(0.024)				
TREATMENT					-0.1209	-0.0179	0.0301	0.0142
					(0.146)	(0.011)	(0.203)	(0.012)
CHANGE					0.0363	0.0014	-0.3384**	0.0018
					(0.098)	(0.006)	(0.129)	(0.012)
TREATMENT × CHANGE					0.2753**	0.0198*	0.2227	-0.0050
					(0.123)	(0.011)	(0.261)	(0.017)
Constant	3.4833	-0.1411	-0.3274	-0.4235**	3.9701*	-0.1249	1.3090	-0.4097***
	(2.202)	(0.101)	(2.871)	(0.214)	(2.341)	(0.104)	(2.049)	(0.099)
IMR	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,182	1,182	382	382	2,003	2,003	733	733
R-squared	0.637	0.313	0.727	0.317	0.672	0.363	0.735	0.349
Number of cmiecode	730	730	200	200	980	980	348	348

Columns 1 through 4 presents the results of a regression of change in conditional conservatism (ΔCONKW/(ΔCONBS) on change in CSR compliance (ΔCSR) and control variables. ΔCSR is an indicator variable that equals 1 if there is a change in the firm's CSR compliance status (from compliance to non-compliance or vice-versa), 0 otherwise. Columns 5 through 8 presents the results of a regression of conditional conservatism (CONKW/CONBS) on TREATMENT, CHANGE, and control variables. Sample represents Indian firms for years 2015 through 2017. CHANGE is an indicator variable that equals 1 for the period when there is a change in CSR compliance, 0 otherwise. TREATMENT is an indicator variable that equals 1 if the firm has made a change in CSR compliance. See Appendix B for variable definitions. Clustered robust standard errors are in parentheses. clustered at the level of firms. ***, **, and * indicate, respectively, statistical significance at the 0.01, 0.05, and 0.10 levels.

Table 6
The Relation Between Future CSR Spending and Current Year Conservatism

VARIABLES	(1) $CSREXP_{t+1}$	(2) $CSREXP_{t+1}$	(3) $CSREXP_{t+1}$	(4) $CSREXP_{t+1}$
$CONKW_t$	-0.1476***		-0.1119***	
	(0.024)		(0.024)	
$CONBS_t$		-1.8782***		-1.6130***
		(0.165)		(0.180)
$CSREXP_t$	0.5258***	0.4568***	0.4763***	0.4383***
	(0.037)	(0.029)	(0.029)	(0.028)
$LN(SALES)_t$	0.3661***	0.1829***	0.3390***	0.2056***
	(0.059)	(0.035)	(0.048)	(0.031)
ROA_t	2.6051***	2.9607***	2.6462***	3.0710***
	(0.375)	(0.329)	(0.452)	(0.368)
Constant	-2.0069***	-1.2769***	-2.1381***	-1.5420***
	(0.432)	(0.284)	(0.322)	(0.244)
Other controls	No	No	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	2,202	2,202	2,202	2,202
R-squared	0.710	0.729	0.725	0.736

This table presents the results of a regression of $CSREXP_{t+1}$ on conditional conservatism ($CONKW/CONBS$), $CSREXP_t$ and controls for a sample of Indian firms representing years 2015 through 2017. $CSREXP$ is the natural logarithm of (1+ actual CSR spending). See Appendix B for variable definitions. Bootstrap standard errors are in parentheses. ***, **, and * indicate, respectively, statistical significance at the 0.01, 0.05, and 0.10 levels.

Table 7
The Relation Between CSR Spending and Discretionary Accruals

VARIABLES	(1) *NEGDACC*	(2) *POSDACC*	(3) *NEGDACC*	(4) *POSDACC*
CSRD	**1.9460****	**-0.0058**		
	(0.979)	**(0.029)**		
CSREXP			**0.4334*****	**-0.0000**
			(0.164)	**(0.004)**
Constant	87.2771*	0.6962	93.2918*	0.6690
	(50.387)	(1.284)	(49.813)	(1.268)
Controls	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	794	1,037	794	1,037
R-squared	0.370	0.117	0.379	0.116
Number of Firms	613	718	613	718

This table presents the results of a regression of conditional conservatism (*CONKW*) on CSR compliance (*CSRD*), strength of corporate governance (*CGINDEX*), family firms (*FAMILY*), and controls for a sample of Indian firms representing years 2015 through 2017. *CSRD* equals 1 if a firm meets mandatory CSR compliance and 0 otherwise. Robust standard errors are in parentheses. See Appendix B for variable definitions. Bootstrap standard errors are in parentheses. clustered at the level of firms. ***, **, and * indicate, respectively, statistical significance at the 0.01, 0.05, and 0.10 levels. *POSDACC* is income-increasing discretionary accruals and *NEGDACC* is the absolute value of income-decreasing discretionary accruals estimated from the modified Jones model.