

Is 2% the Solution? Experimental Evidence on the New CSR Rule in India

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The Indian government became the first regulator in the world to mandate a minimum CSR spending on specified social welfare activities. Prior research in psychology indicates that individuals tend to focus heavily (Anchor) on the initial information or estimate in a decision making context. Therefore, we conduct two experiments to examine the impact of the 2% minimum CSR spending limit as an anchor. The first experiment was conducted to establish the effects of anchoring on decisions related to charitable giving. The results of this experiment indicate that participants' charitable contribution was significantly higher when no minimum limit was stipulated compared to when a minimum limit was stipulated. This result suggests that participants did anchor on the minimum stipulated limit while deciding on the amount of charitable contribution. The second experiment was conducted to examine if anchoring specifically affected CSR spending decisions. The results of the experiment indicated that the amount of reported CSR spending was lower when the minimum 2% rule was imposed versus when it was not imposed. Additionally, when the 2% rule was not imposed the participants appeared to anchor on the overall financial requirement of the CSR activity and decided to spend more or less depending on the financial requirement of the CSR activity. The results of our third experiment indicate that the 2% rule could eventually decrease the CSR spending of those companies that were already spending more than 2% of their profits on CSR related activities.