Assessing Impact of Mandatory CSR on Food Industry

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Abstract

India is the only country in the world which has now made CSR spending mandatory. Food industry is not an exception to this requirement. In a developing country like India, food industry has a larger social purpose, for food and nutrition are inextricably linked to hunger and health. At the same time, however, food firms are not philanthropic institutions either. We address the issue of whether or not making CSR activity mandatory has impacted the food industry negatively. Events that are expected to affect an industry negatively get reflected in significant lowering of firms' stock prices, for they capture the current and future profitability of firms. We conduct an event analysis by considering stock prices of food firms around two important events – passing of the CSR bill in two houses of parliament. We find that stock prices of select top performing food firms and select food firms that barely qualify for the CSR norms have not been adversely impacted by the two events. This means that food firms can turn mandatory CSR activities into an opportunity to build brand value. Using their core competence, they could spend on delivering nutrition-rich packaged foods, drinks, potable water, and neutraceuticals to disadvantaged communities.

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1. Introduction

India's parliament passed the Corporate Social Responsibility (CSR) Bill on 8 August 2013 in the Rajya Sabha, the upper house of the parliament and paved the way for making CSR activity mandatory for certain firms. Earlier, the bill was passed in the Lok Sabha, the lower house of the parliament on 18 December 2012. The CSR rules are laid out in Section 135 Schedule VII of the Companies Act 2013 (MLJ, 2014). As per the rules, the CSR spending becomes mandatory for firms making a net profit of at least Rs. 5 crore or have a net worth of at least Rs. 500 crore or have a turnover of at least Rs. 1000 crore. If the firms meet any of these criteria, they have to spend at least 2 per cent of their annual net profits (average of the last three years) on CSR activities from the year 2015 (IE, 2014).

Mere reporting of CSR activity is already mandatory in many countries such as Australia, Denmark, France, Holland, Norway, and Sweden. However, India is now the first country in the world to have mandated in its statute a minimum CSR spending of at least 2 per cent of net profits by certain firms. The mandatory CSR norms would apply, of course, both to food and non-food firms. Would this law, the mandating of CSR spending on certain firms, have negative impact on the food industry? Food industry performs a dual role. On the one hand, by its very nature it is inalienable from a larger social purpose. In a developing country like India, it is viewed more in the context of ending hunger and providing nutrition and health to the disadvantaged communities. On the other hand, however, like any other good or a service, food industry does cater to communities that have graduated to more evolved forms of food consumption. After more than 2 decades of economic liberalization starting 1991, India's average GDP growth rate has been about 7 per cent per year. The resultant burgeoning of the middle-class, increased work force participation by women, and higher propensity for away-from-home consumption, has helped food industry grow rapidly and catch its own momentum.

Adam Smith (1776), the father of modern economics had said in his treatise *An Inquiry into the Nature and Causes of the Wealth of Nations*, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest." In this context, an event such as the promulgation of mandatory CSR has introduced an element of coercion by the government. Therefore, it becomes imperative to assess if the mandatory CSR would put a restraint on the growing food industry. An important measure of whether or not such an event would have a negative impact on industry is to assess the impact of the event on perceived profitability. This in turn, can be gauged by observing stock prices of firms. Occurrence of an event and consequent changes in stock prices capture the profitability perceptions of industry stakeholders in general and existing and prospective shareholders in particular.

Negative/positive events related to an industry or its firms affect investors' faith in those firms, and, therefore, prospects of their stock prices. For example, stock price of United Breweries, the firm that produces the popular beer, Kingfisher, fell when people got to know of the financial crisis of its related firm Kingfisher Airlines. On 12 March 2012, news flashed in the Indian media regarding non-payment of taxes and salaries by Kingfisher Airlines (The Hindu, 2012). As everyone got to know of this, by 14 March 2012 the stock price of United Breweries fell to Rs. 544 from a previous-day high of Rs. 644. This was a significant fall of about 16 per cent in the stock price within 2 days. Another example of a bad news affecting prospects of a food firm comes from Cadbury. In October 2003, several cases of worms being found in the Cadbury's Dairy Milk (CDM) chocolate were reported from a few states in India. The negative impact of this event was evident – Cadbury's net profits fell by 37 per cent for the year ended December 2003 (BS, 2004). Stock price of another Indian food giant, ITC fell by more than 5 per cent in a single day with a mere acceptance of a suggestion by Indian government to ban sale of single, loose cigarettes (BT, 2014).

In the cases just mentioned, it was obvious that the impact of a bad event was quite negative on the food firms. This paper tries to assess impact of the event – Announcement of the mandatory requirement on firms to spend on CSR activities. Unlike in the cases mentioned above, however, one is not sure if society in general and the stakeholders of food industry in particular would consider this as a negatively impacting event or otherwise. To understand the broader context of this issue, in Section 2 we address the concept of market failure and the need for the state to provide merit goods. Following that, in Section 3 we discuss the state failure in providing merit goods and the prevalence of voluntary CSR by corporates. Section 4 introduces the concept of event analysis and Section 5 describes methodology and inferences based on its application to stock prices of food firms. Finally, Section 6 provides summary and concluding observations.

2. Market Failure and Government Role in Merit Goods

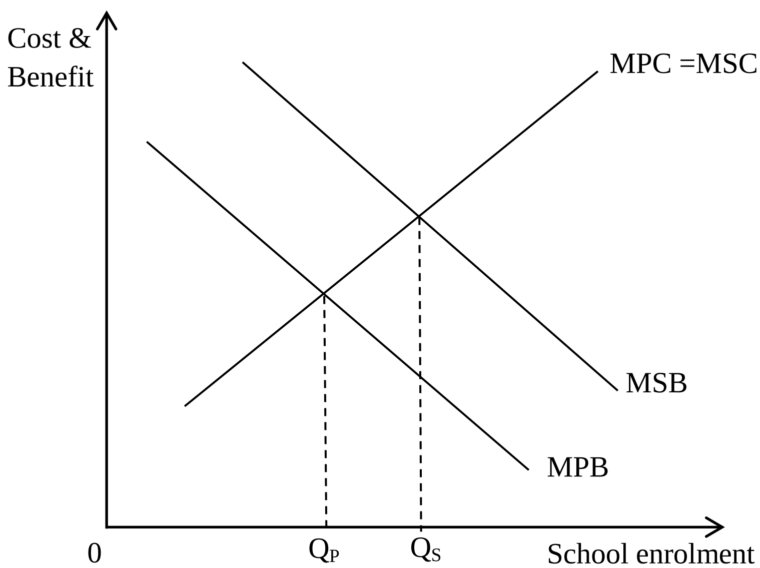
The prime role of the government to intervene in private markets arises when in certain instances markets fail to deliver socially optimal levels of goods or services. Among other, an important reason for government intervention is the presence of what are described as merit goods. For example, if the markets are left to themselves, private firms will certainly offer primary healthcare and primary education to the society; however, they will under provide such services. This is so because the private benefit accruing to an individual due to availing of primary healthcare and primary education, especially in a developing country like India, is much lower than the social benefit that arises out of provision of such services. Why is the social benefit of primary healthcare and primary education higher than the private benefit? The answer lies in what we refer to below as positive externalities[1].

When a malnourished child gets nutritious food and vaccination, a girl child gets primary education, a woman gets access to primary healthcare, or an uneducated youth get vocational training, society as a whole benefits much more than the benefit accruing to that individual. When a child is vaccinated, the benefit accrues not just to that child but to a community at large, for the child does not spread communicable diseases. A woman who is educated and is physically healthy is able to nourish and bring up her children in a much better way. She is likely to inculcate good habits and practices in the family. Similarly, a trained youth is more likely to get a decent job, provide for his/her family, and not likely to go wayward causing social ills and unrest. It is also for the same reason that government of India has undertaken the Mid Day Meal Scheme to provide cooked meals to children in the municipal and government run primary schools. Such cooked meals offer incentive for children of the disadvantaged groups to come to school - They get assured shelter for 4 to 5 hours, receive basic education, end their hunger, and also receive nutrition. Such schemes offer positive externalities where social benefit far outweighs private benefit.

[1] For a lucid explanation of externalities and other reasons for government intervention, refer to Chapters 1 and 10 of IIMA Business Book Series titles, Day to Day Economics (2012) and Why I am Paying More (2013).

The above discussion about the existence of positive externalities in merit goods and its under-provision under free markets can be demonstrated through a diagram. Refer to Figure 1 below. The marginal private cost (MPC) and the marginal social cost (MSC) of delivering a merit good like primary education is given by the upward sloping line MPC=MSC. The marginal social benefit (MSB) and marginal private benefit (MPB) of a merit good like primary education is shown by the downward sloping lines such as MSB and MPB. Since social benefit is much higher than private benefit, MSB lies above MPB in Figure 1. If government does not intervene in the market, the private sector will offer Q_P level of education which is the intersection of MPB and MPC=PSC. However, since MSB is greater than MPB, the intersection of MSB and MPC=MSC occurs at a level of education given by Q_S. Thus, there is under-provision of education to the extent of $Q_S – Q_P$. Government can provide for this additional level of education by opening new schools by itself or allowing subsidy to private schools to provide the additional education.

Figure 1: Under-Provision of Merit Goods



3. State Failure and Voluntary CSR by Industry

India is a welfare state and government is committed to improve the material wellbeing of the population. To compensate for the under-provision of merit goods which result due to market failure, it has attempted to provide them to the disadvantageous community since independence.

Unfortunately, however, while the government has spent huge amounts on primary health care and education, the delivery mechanism has been fraught with many problems. Lack of collective political will, administrative delays, leakage of funds in distribution, and aid not reaching the targeted groups meant that there was no significant improvement in the socio-economic and demographic parameters of Indian population as was expected.

As per the 2011 census, the adult literacy rate in India has barely gone beyond 70 per cent. This means that on an average, when 4 people get together, more than 1 person in the group cannot read and write. And, this is not a conservative number, for India's definition of literacy rate is somewhat liberal than that of the World Bank. Moreover, many East Asian countries such as China have done much better compared to India. As per UNICEF (2013) data, China's adult literacy rate is more than 95 per cent for quite some time. Similarly, in 2010, if the overall Infant Mortality Rate (IMR) in India was 47 and that in the rural areas was 57, China's IMR had already reached a low of 12 in 2012. In fact, IMR of some Indian states is much higher and is comparable to the ones from poor countries of Sub-Saharan Africa[2].

Perhaps to cover for the inadequacies in the delivery of merit goods by the state, Indian government has come out with the recent amendment to Companies Act 2013 which mandates firms meeting certain criteria to spend at least 2 per cent of their net profits on CSR activities. In fact, corporate sector has always contributed to the social-development activities by donating some part of their profits in the form of private charity. For example, Tata Trust has been one of the oldest and the largest philanthropies in India. Similarly, Aditya Birla Group runs its CSR activities through Aditya Birla Centre for Community Initiatives and Rural Development (Forbes, 2012). Contributions by the neo-rich industrialists such as Azim Premji and N R. Narayana Murthy are well known too. These philanthropists have been actively involved in providing support to academic institutions, healthcare delivery, and to other social causes for the under-privileged (Forbes India, 2012). And then, there are thousands of schools and colleges that are named after traders and industrialists who have donated generously out of their profits for the cause of education.

[2] There are a host of other parameters on which India does very poorly. For example, it has been reported that almost half of the married women are anaemic and about 33 per cent of them are under-nourished. India has the highest number of babies with low birth weight. A major challenge on the education front is that an estimated number of 8.1 million children belonging to disadvantaged groups are still out of school (NFHS 3, 2005-06).

Voluntary CSR Initiatives by the private sector can be instrumental in providing impetus to inclusive and sustainable development. They help increase the competitiveness of a nation by following responsible business practices that increase productivity and performance. Importantly, CSR complements government's efforts for societal advancement. (Joyner and Payne, 2002). Of course, voluntary CSR activities do help firms in creating a brand image and market reputation for themselves, which in turn helps them in generating sufficient resources to provide for the community (Carroll, 1999). CSR activities are a signalling mechanism which shows that the firms are acting ethically and responsibly. This in turn has proven to positively influence firms' financial performance (Waddok and Graves, 1997). In this sense, CSR activities serve both purposes - philanthropy as well as self–interest. For example, if food giants such as ITC or Britannia were to provide merit goods such as nutrition bars to disadvantaged children through the Government of India's Mid Day Meal Scheme, it would not only be in synch with the core competence of these food firms but it would also add to their brand reputation in the market. There is a potential for food firms to create a virtuous cycle - exploit economies of scale, reduce unit cost of producing nutrition bars, offer them to private markets for profits, and distribute some through CSR channels (Deodhar, *et al*, 2012).

4. Measuring Impact of Mandatory CSR through Event Analysis

The discussion we have had above is in the context of voluntary CSR. However, the case of CSR in India will be different from now on, for the government of India has given some prescriptive channels for undertaking mandatory CSR activities. Among others, expectedly, they include activities involved in dealing with issues of hunger, poverty, education, gender equality, women empowerment, child mortality, and maternal health. Efforts geared towards eradication of malaria and acquired immune deficiency syndrome (AIDS), and business projects related to ensuring environmental sustainability and development of vocational skills also get included in it. Besides, contribution to the Prime Minister's National Relief Fund (PMNRF) or any other fund set up by the central or state governments focusing on socio-economic development and relief, and funds for the welfare of the minorities are also prescribed (MLJ, 2014).

An important question to be answered now is – Have the industry stakeholders in general and existing and potential shareholders in particular, viewed these mandatory CSR activities in a positive light? Clearly, now there is an element of coercion introduced by the government. While firms now have an opportunity, albeit forced one, to create a brand image and reputation through CSR spending, there is also a good possibility that the announcement of this coercive CSR will be viewed as affecting current and future profitability of the firms negatively. Not all firms engage in CSR activities. Some firms may now consider it as an additional administrative burden. Some others may perceive that government now has an additional mechanism for arm-twisting, for government officials' perception on categorization and valuation of CSR activities may differ from that of the firms. Moreover, quite a few may still perceive that a portion of their profits is now being hived off in unproductive (non-profit creating) channels. Such perceptions will have negative impact on stock prices. In fact, perhaps the small and medium sized firms that are on the margins of the threshold criteria for mandatory CSR will get affected much more. On the other hand, large firms that know that their spending on CSR is already more than 2 per of their net profits may simply have to inform the government or at worst, may have to re-direct or re-categorize their activities to make them compliant with the new law.

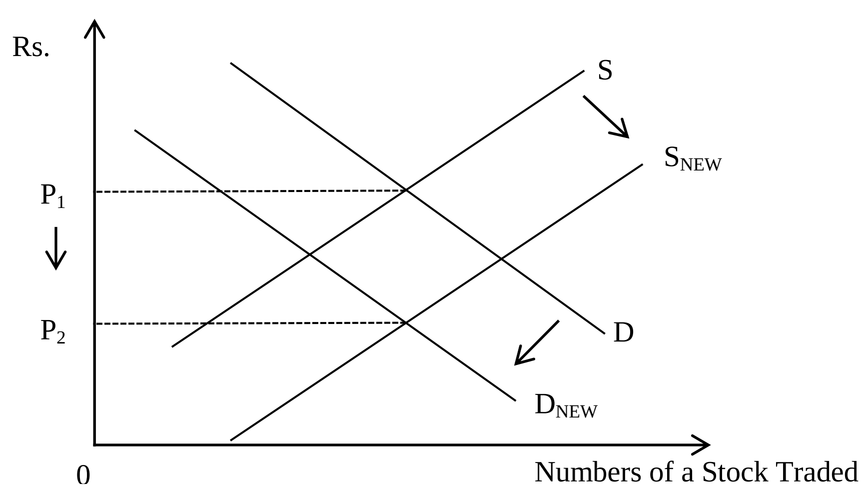
In fact, mandatory CSR can be criticized from the point of view of the complete political spectrum - the left, the right, and the centre. Those who are to the left of the centre may argue that government is abdicating its own responsibility. It should tax capitalists, prioritize the socially beneficial activities, and spend accordingly in its own right. Those who are to the right of centre may argue that mandatory expenditure is a tax. Already a 33 per cent corporate tax in India is higher than the global average of 24 per cent. Mandatory CSR will make Indian investment scenario less competitive by an additional 2 per cent. And, those who claim to be at the centre of the political spectrum may argue that CSR is an inspirational activity. One cannot mandate someone to act voluntarily. Besides, exercising enforcement and penalties would be difficult leading to corruption (Karnani, 2013).

The taste of the pudding is in the eating. One of the ways to assess societal reaction would be by observing the stock prices on the stock exchanges. Stock prices have always been a reflector of what the investors think and predict about the current and future profitability of a firm. Therefore, to gauge the impact of the passing of the mandatory CSR, we carry out an event analysis to study the share prices before and after the event of announcement of CSR amendment. We already offered anecdotal negative events associated with Cadbury, United

Breweries, and ITC and their negative impact on stock prices or profits. In fact, it has been empirically proven that news, good or bad, does affect the stock prices (Pearce and Roley, 1985). Therefore, it is expected that a bad news or an unfavourable event about the prospects of a firm will lead to buyers lowering their demand for the stock and existing investors may decide to sell the stock increasing its supply in the market. This simultaneous fall both in demand and supply of a firm's stock will result in a significant fall in its price. Just the opposite will be true in the case of a good news or a favourable event about the prospects of a firm.

A stylized demand and supply diagram for a stock traded in the stock market is shown in Figure 2 below. The figure shows the impact of negative news on the stock price of a firm. The upward sloping line S indicates the supply schedule and the downward sloping line D indicates the demand schedule for a firm's stock. The equilibrium price of the stock is given by P_1. When a perceived bad news is made known to the society through an event such as a policy announcement, society, through its existing and potential shareholders of the firm may expect current and future profitability of the firm to go down. Hence, demand for the firm's stock may shift down to D_{NEW}. Similarly, if the perceived bad news is expected to lower the profitability and the dividend potential of the firm, existing shareholder may also not want to hold on to the stock. Hence, supply S of the stock will increase shifting it down to S_{NEW}. The new intersection of the demand and supply occurs at P_2. Thus, fall in both demand and supply for the firm's stock would result in significant fall in the stock price to P_2. This fall in the price is a signal by society that the event of announcement has been perceived negatively by the firm's stakeholders.

Figure 2: Determination of Equilibrium Share Price



5. Event Study Methodology to Assess to the Impact

Event study is a method used to study the impact of an event on the value of the firm using data from the financial market. Such studies assume rational behaviour by the stakeholders in the marketplace which captures the effect/impact of an exogenous event in the form of changes in the stock prices. The economic impact of the event can be studied by observing stock price both before and after the event covering a short period of time. This methodology is widely used in economics, finance, and accounting (MacKinlay, 1997).

For this study, we considered an initial pool of 202 food firms and their stock prices available on the Prowess Database. The stock prices are of firms listed on the Bombay Stock Exchange (BSE). We organized these firms in the descending order of each of the 3 CSR criteria set-out in the Companies Act, namely net profit (> Rs. 5 crore), net worth (> Rs. 500 crore), and turnover (> Rs. 1000 crore), respectively. Thereafter, we shortlisted these firms in two segments – Top Performers and Threshold Performers. In Top Performers, we considered a total of 5 firms of which 3 firms had made to the top 10 list in each of the 3 criteria and 2 other firms that had made it to the top 10 in 2 of the 3 criteria. For example, on the net profit criteria, lowest net profit among the 5 firms was Rs. 193 crore in the fiscal year 2012-13, far in excess of the threshold criteria of Rs. 5 crore.

Among Threshold Performers we considered 5 firms each that just made it to the thresholds of the 3 criteria, respectively. While the drafts of the CSR bill and its eventual introduction, discussion, and passing in the two houses of parliament had taken quite many years, we considered two crucial dates – 18 December 2012 and 8 August 2013, when the bill was passed in the Lok Sabha and the Rajya Sabha, respectively. The announcements of these events were made by TV and print media by the following day, respectively. We noted the stock prices of the firms in both segments for the day before the passing of the CSR bill and 3 working days after the passing of the CSR bill. Moreover, percentage changes in the stock prices during this period were calculated. The above data is provided in Tables 1 to 4 below.

The government statute of mandatory CSR is coercive in nature and it could be perceived to be hampering the firm profitability for many reasons. Therefore, we consider a null hypothesis that announcement of passing of the CSR bill both in Lok Sabha and Rajya Sabha would have a consistent, negative, and significant impact on the stock prices of all food firms. In fact, we expect this impact to be much larger for threshold firms – the ones barely making it to the 3 criteria laid out by the Companies act. From the anecdotal benchmarks we provided earlier, we know that United Breweries prices fell by 16 per cent in 2 days and ITC stock fell by 5 per cent in a single day when those firms were confronted with negative events related to their firms. In this context, Table 1 shows the impact on stock prices of 5 top performing food firms. We compare the stock prices a day prior to the passing of the bill and 3 days after.

Sometimes, an imminent event is known to stakeholders through insider information. Such prior information causes stock price to change even before the event occurs, and one does not expect significant change in stock price immediately following the event. This was not the case with CSR bill. Mandatory CSR norms were being considered since the draft Companies Bill of 2009. They were introduced in the Companies Bill 2011, and finally, by latter half of 2013 the norms became a reality. Thus, for many years, there was delay and uncertainty on many counts – efforts to include the norms in the bill, efforts to introduce the bill in two houses, having discussion on the matter in both houses, and, finally sequential passing of the bill in both houses. Therefore, no one really had an inkling of when the CSR bill was likely to get passed and become an act. In this context, there was a surprise element in the 2 events we considered above, and, potentially there could have been a significant negative impact on stock prices.

Table 1: Stock Prices of Top Performer Food Firms

		CSR in Lok Sabha 18/12/12		Percent Change	CSR in Rajya Sabha 8/8/2013		Percent Change
Firm	Type	17/12/12	21/12/12		7/8/13	12/8/13	
ITC	Food Products & Tobacco	293	288	-1.7	323	336	4.0
Ruchi Soya	Vegetable Oils & Products	66	64	-3.0	51	52	2.0
Marico	Vegetable Oils & Products	222	219	-1.4	202	202	0
Tata Beverages	Tea	166	161	-3.0	141	145	2.8
E.I.D. Parry	Sugar	219	212	-3.2	104	108	3.9

After the bill was passed in Rajya Sabha on 8 August 2013, the bill had virtually become an act, only waiting for a formal approval by the President of India. This was a big news indeed. However, none of the 5 firms showed any decline in stock prices after this event. In fact, most stock prices rose over a period of 4 days. Prior to this, when the bill was passed in Lok Sabha on 18 December 2012, all 5 firms did show fall in the stock prices. However, the total fall spread over 4 days was not that significant. Thus, the top performing food firms do not show any consistent, significant and negative impact on stock prices across the two events – passing of the bill in Lok Sabha and in Rajya Sabha. Therefore, we reject the hypothesis that mandatory CSR has had any major negative impact on the top performing food firms.

Next, we look at the firms that were at the thresholds of the 3 criteria specified in the Companies Act. We consider a null hypothesis that these threshold food firms must have got affected much more than the top performer food firms as they are much smaller in terms of profits, net worth, and/or turnover. Consider Table 2 that shows 5 firms that just made it to the threshold net profit of Rs. 5 crore. Two of the 5 firms showed stock price going up marginally instead of going down in 4 days after passing of the bill in Lok Sabha. While 2 of the remaining 3 showed a marginal decline, only Vimal Oil showed a fall of about 8 per cent spread over a period of 4 days. After the bill was cleared in Rajya Sabha, only 2 of the 5 firms showed fall in stock prices and that too was insignificantly spread over 4 days. Thus, once again, changes in stock prices across the two events did not show any consistent, significant, and negative impact on stock prices. Similarly, Tables 3 and 4 show the stock prices of food firms that barely made it to the net worth and turnover criteria of the CSR bill. In these two tables as well, neither does one find any consistent pattern in price changes between the two events nor does one find a consistent pattern in price changes for a given event. Therefore, for the threshold firms as well, we reject the hypothesis that mandatory CSR has had any negative impact on the food firms.

Stock prices are affected daily by scores of factors. While we do not control for all such factors, the two events we selected were too important to be ignored by stock market, if these events were to make a negative impact on food industry. The data in the Tables 1 to 4 shows that changes in the stock prices of food firms in and around the two events are mostly random in nature and not related to any negative impact of the CSR bills being passed in the two houses of parliament. If they were, then one would have observed stock prices to fall consistently for both the events and significantly and consistently among all firms for each of the events. Moreover, the process of making CSR activity mandatory in the new Companies act had been a very lengthy one. There was a lot of uncertainty at each step of the process. Therefore, it also cannot be true that information about the imminent passing of the bill had leaked and the fall in prices may have started occurring prior to the occurrence of the two important events.

Table 2: Stock Prices of Net Profit Threshold Performer Food Firms

		CSR in Lok Sabha 18/12/12		Percent Change	CSR in Rajya Sabha 8/8/2013		Percent Change
Firm	Type	17/12/12	21/12/12		7/8/13	12/8/13	
Vadilal	Dairy products	228	230	0.8	112	121	8.4
Vimal Oil & Foods	Vegetable oils & products	97	89	-8.0	87.45	89.05	1.8
Waterbase Ltd.	Vegetable oils & products	12.32	12.62	2.4	9.61	9.55	-0.6
Flex Foods	Other agri products	27.05	26.5	-2.0	22.05	22.5	2.0
Rana Sugars	Sugar	3.91	3.82	-2.3	2.13	2.04	-4.4

Table 3: Stock Prices of Net Worth Threshold Performer Food Firms

		CSR in Lok Sabha 18/12/12		Percent Change	CSR in Rajya Sabha 8/8/2013		Percent Change
Firm	Type	17/12/12	21/12/12		7/8/13	12/8/13	
C. Setia Exports	Other agri products	33.25	33.1	-0.45	26.7	25.55	-4.30
Vadilal	Dairy products	228	230	0.8	112	121	8.4
Flex Foods	Other agri products	27.05	26.5	-2.0	22.05	22.5	2.0
Diana Tea	Tea	15.12	15.06	-0.39	9.1	9.5	4.39
Waterbase Ltd.	Vegetable oils & products	12.32	12.62	2.4	9.61	9.55	-0.6

Table 4: Stock Prices of Turnover Threshold Performer Food Firms

		CSR in Lok Sabha 18/12/12		Percent Change	CSR in Rajya Sabha 8/8/2013		Percent Change
Firm	Type	17/12/12	21/12/12		7/8/13	12/8/13	
A D F Foods	Processed foods	72.1	76.6	6.24	40.4	41.3	2.17
Zydus Wellness	Vegetable oils & products	492	495	0.60	609	571	-6.2
Ravalgaon Sugar Farm	Sugar	4990	4840	-3.00	3607	3525	-2.3
Tasty Bite Eatables Ltd.	Processed foods	159	170	7.0	153	158	3.3
B & A Ltd.	Tea	195.25	196	0.38	96	107	11.5

6. Summary and Concluding Observations

For decades together, India has had a very poor record in terms of indicators of socio-economic development. While the Indian government understands the market-failure argument in the provision of basic education, primary healthcare and other services, its own efficacy in providing these merit goods has been very poor. Perhaps not satisfied with its own efforts and the voluntary philanthropic efforts of private sector in providing these services, government of India has now resorted to making CSR activity mandatory. As a result, today India is the only country in the world which has mandated CSR though a legal statute. Potentially, the move could be criticised from across the ideological spectrum. Left-leaning groups would argue that the government has jettisoned its own responsibility. It could have taxed the capitalist more and spent the money as per its own social priorities. The right-leaning groups would argue that corporate taxation is already 33 per cent and the additional mandatory expenditure of 2 per cent is a tax that makes industry less competitive. The groups in the centre would argue that one cannot mandate someone to act voluntarily and exercising enforcement and penalties would give way to corruption.

However, it is critical to know as to how the industry stakeholders view this development. Food industry in India, by its very nature, is inextricably involved in discharging a social responsibility. Of course, its products offer material pleasure like many other goods or services do, however, importantly, in a developing country like India, it serves a critical social role in taking care of hunger, nutrition, and safety of health. Further, with more than 2 decades of economic liberalization starting 1991, an average GDP growth rate of 7 per cent, burgeoning middle class, increased workforce participation by women, and increased propensity for food consumption away from home, food industry in India has come of age and is expected to grow at a rapid rate. Therefore, we assessed the impact of CSR bill on food industry through an event analysis of stock prices of food firms.

We looked at two critical events related to the amendment to the Companies Act 2013 which made CSR norms mandatory. The first was the passing of the CSR bill in the lower house of parliament, Lok Sabha, and the other was the passing of the bill in the upper house of parliament, the Rajya Sabha. Further we considered two groups of food firms – The first group consisted of select 5 top performing food firms in terms of their net profit, net worth, and turnover. In the second group we considered 5 food firms each that barely made the threshold cut offs of net profit of Rs. 5 crore, net worth of Rs. 500 crore, and a turnover of Rs. 1000 crore. We considered the stock prices a day before and 3 days after the announcement of passing of the CSR bill in Lok Sabha (18/12/2012) and Rajya Sabha (8/8/2013) respectively.

Movement in the stock prices of firms in the stock market indicate their perceived current and future profitability. As had happened in the case of United Breweries, Cadbury, and ITC, adverse events have a significant and immediate impact on stock prices, for they alter the perceived profitability of firms negatively. If the passing of the mandatory CSR bill was considered as an adverse event by the stakeholders of food industry in general and current and prospective shareholders in particular, then one would expect immediate and significant fall in stock prices of food firms. Therefore, our null hypothesis was that stock prices of foods firms would fall significantly and immediately after the two critical events – passing of the CSR bill in Lok Sabha and Rajya Sabha, respectively. If the stock prices of the high performer food firms fell very marginally in a 4-day period at the time of passing of the bill in Lok Sabha, they increased after its passing in the Rajya Sabha. Therefore, in terms of stock price changes we reject the contention that CSR bill had any significant and negative impact on large food firms. Similarly, stock prices of select 5 firms each that just made to the threshold levels of net profit, net worth, and turnover, also did not indicate that the smaller food firms were affected negatively by the mandatory CSR norms. For some firms prices rose marginally and for some other prices fell marginally during the 4-day period associated with the two critical events.

Thus, contrary to the theoretical arguments put forward, mandatory CSR does not seem to have any negative impact on food industry. This implies that food industry may not be adversely affected in terms of prospective investors, domestic or foreign, withholding their funds to be brought into this industry. In fact, mandatory CSR spending offers a strategic opportunity to the food industry to build brand value by firms. Food industry has a natural association in strengthening the social development indicators of the country. Therefore, its CSR spending could be matched with their core competence – supplying nutritious food. This could be done in a number of ways.

Food firms could complement the existing initiatives such as the Mid Day Meal and Anganwadi schemes of the government and private initiatives such as Akshay Patra. This could be done by supplying to them modern packaged foods such as nutrition bars, fruit drinks, soya biscuits, fortified noodles as also the improvised traditional packaged nutritional food items such as *sukhdi* and *chikki*. Food firms could also offer such food items to patients being treated at primary healthcare centres and municipal, civil, and rural hospitals; which primarily serve the disadvantaged communities. Beverage firms could think of facilitating supply of community based potable water[3]. Finally, one cannot rule out the possibility of using CSR funds for development of new health foods that use nutrient rich coarse grains such as say ragi and flax and develop neutraceutical food products.

[3] One such award winning initiative, *Sarvajal*, has been successfully adopted by Piramal Water Ltd in many states of India. They have developed a hub-and-spoke approach for community based delivery of potable water in villages.

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