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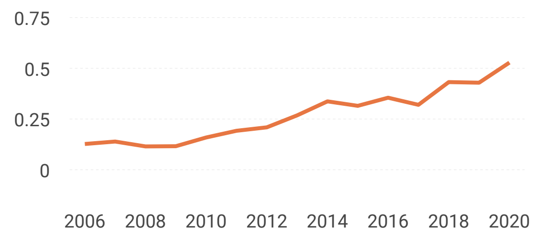

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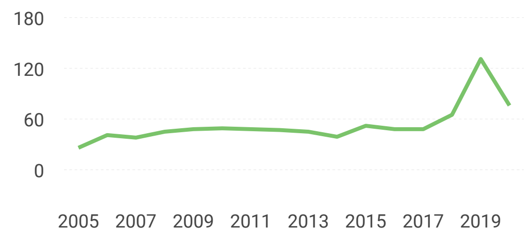

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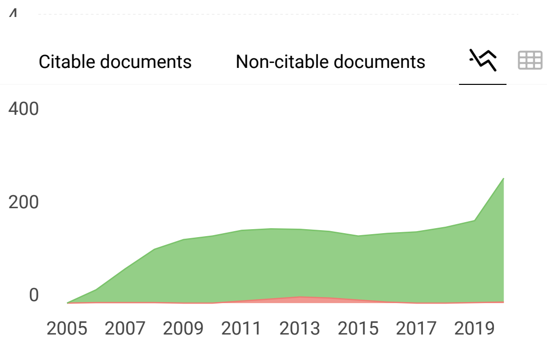

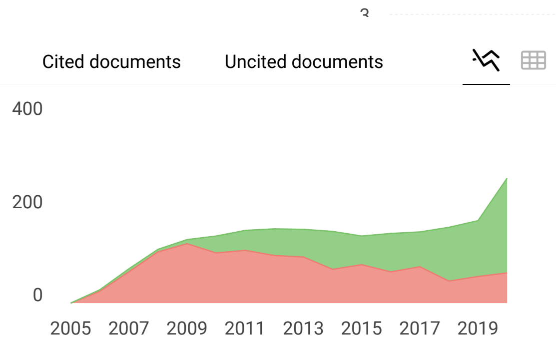

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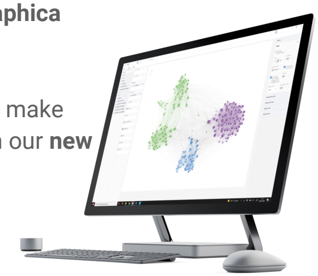

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Does mandatory CSR provide long-term benefits to shareholders?

Juniarti

Juniarti is based at the Department of Accountancy, Faculty of Economics, Petra Christian University, Surabaya, Indonesia.

Abstract

Purpose – *Mandatory corporate social responsibility (CSR) aims to protect the long-term benefit of shareholders; therefore, this study aims to seek empirical evidence for the benefit of mandatory CSR from the perspective of shareholders.*

Design/methodology/approach – *Consistent with the objective of this study, the long-term shareholder benefit is measured using the sustainability perspective. Companies listed on the Indonesia Stock Exchange that have at least five years of CSR implementation, as its mandate and have retroactive earnings data for minimum six years before the observation year are selected as the study's sample.*

Findings – *The findings support that mandated CSR protects long-term shareholder value; there is a significant association between CSR and sustainable shareholder value. Industry profiles are an essential aspect of the association model. The results are robust through testing the association for various scenarios of time.*

Research limitations/implications – *This study uses a single measurement of shareholder value based only on accounting measurement. Further, due to limitations in accessing internal company data, this study relies on annual reporting information to measure CSR implementation.*

Originality/value – *This study is the first to provide empirical evidence of the long-term benefit of mandatory CSR from the shareholders' perspective. This study also contributes to the existing literature by evaluating the success of mandatory CSR in developing countries. Those that successfully implemented mandatory CSR can serve as a model for other developing countries interested in creating similar policies to encourage socially responsible companies.*

Keywords *Corporate social responsibility, Mandatory, Shareholders, Sustainable value*

Paper type *Research paper*

1. Introduction

Unlike in developed countries, where corporate social responsibility (CSR) activities are initiated internally, CSR activities in Indonesia have been government mandated since the issuing of Corporate Act No. 74 in 2007. The act was issued due to Indonesian companies' low recognition of their responsibilities toward environmental and social issues. The mandatory nature of the act has invited strong debate among business entities, primarily concerning the perceived cost consequences (Waagstein, 2011); many believed the act would increase company costs and diminish shareholder value. The disagreement culminated in a judicial review that conveyed some weaknesses of compulsory CSR, including the belief that mandatory CSR is in violation of the Indonesian State Constitution and that it is discriminatory and distorts the economic capacity of the company (Waagstein, 2011). However, the Constitutional Court concluded that mandatory CSR does not violate the law and was considered under the social, economic and legal conditions in Indonesia. Mandatory CSR provides more legal certainty than voluntary CSR, especially considering the conditions of Indonesia, where legal protection is still weak (Waagstein, 2011).

Voluntary CSR, as it operates in developed countries, demonstrates companies' intentions to embrace the interests of its stakeholders. Several reputable companies, including British

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Petroleum, have voluntarily declared their commitment to doing good business (McBarnet, 2009). They are willing to sacrifice business opportunities to protect environmental sustainability. The commitment is very subtle, as it depends on the companies as a general. However, there are many issues surrounding voluntary CSR, including adoption rates among companies, the reliability and transparency of CSR reporting and the effectiveness of CSR policy in practice (McBarnet, 2009). The effect of CSR on financial performance in developed countries has also been widely studied, but the results are still mixed. A number of studies showed a positive association between CSR and financial performance (Kim and Oh, 2019; Martinez-Conesa *et al.*, 2016; Wang *et al.*, 2015; Mishra, and Suar, 2010; Hillman and dan Keim, 2001; Orlitzky *et al.*, 2003; Klassen and McLaughlin, 1996; Waddock and Graves, 1997). Positive changes in CSR reputation have a positive impact on company performance; conversely, companies that obtain a negative CSR reputation result in a decline in profit (Miller *et al.*, 2018). Other studies showed a negative association between CSR and financial performance, (Jayachandran *et al.*, 2013; Hassel *et al.*, 2005; Belkaoui, 2004; Lopez *et al.*, 2007; Bird *et al.*, 2007) and others still found no relationship at all (Guidry and Patten, 2010; Dincer, 2011; Wang, 2011; Clacher and Hagendorff, 2012; Cho *et al.*, 2012). Prior evidence explains the vulnerability of voluntary CSR, as it depends on the companies' commitment.

For developing countries that have less sophisticated laws and background institutions, voluntary CSR does not work (Fieser, 1996). Voluntary participation usually exists in Western societies because their levels of compliance with laws and regulations are higher than those found in developing nations. In an Eastern society such as Indonesia, where people are less aware of laws and regulations, mandatory CSR is more suitable (Gayo and Yeon, 2013). Mandatory CSR is designed from the perspective of the beneficiary because, in some cases, corporations are stronger than the country itself. However, mandatory CSR is not without problems. There are implementation issues, especially in Indonesia, that include a lack of guidelines, standards and rules related to CSR. However, many governments have created regulations that require socially responsible behavior and policies intended to strengthen CSR (Walliser and Scott, 2018). This implies that they are starting to recognize the benefits of mandatory CSR, which aims to protect the long-term interest of shareholders.

Mandatory CSR supports the role of government in the community. Because it is not possible for the government alone to improve the standard of living in a community, mandatory CSR allows companies to collaborate with the government to improve community life. If a company wants to project a favorable public image, they must show that their CSR activities support this social objective. To meet long-term interests, businesses must be sensitive to the needs of the community because they have an interest in creating a better environment for conducting their businesses. Social goals are now a top priority of companies looking to improve their images, reputations and goodwill.

The trend to mandate CSR after it was previously voluntary (Walliser and Scott, 2018) and the question of its benefits encourage this research. Indonesia has mandated CSR for several years, and its successful implementation could provide a reference for other developing countries. Although still in a very early stage, a prior study on mandatory CSR in Indonesia found that companies that moved from voluntary to mandatory CSR were appreciated by the market (Hendarto and Purwanto, 2012). Oeyono *et al.* (2011) found a positive association between mandatory CSR and profitability, though the association is quite weak.

Considering that mandatory CSR aims to protect the long-term interest of shareholders, this study highlights CSRs' benefits from their perspective. A report from Goldman Sachs (2005) shows that socially responsible companies underperformed around 3% to 8% at the start of CSR implementation (McBarnet, 2009). This is consistent with the finding of Chen *et al.* (2018), who find that firms experience a decrease in profits after the mandate. Despite this short-term underperformance, investors ultimately support these companies over those that over perform in the short-term but later declare bankruptcy (McBarnet, 2009). This study analyzes the benefits of CSR from a sustainability perspective in an effort to convince shareholders that CSR secures their long-term interests (Lawrence and Weber, 2008; Bansal, 2005; Herrmann, 2004; Payne and Rayborn, 2001).

This research contributes to the existing literature in several ways. First, this is the first study that provides empirical evidence of the benefit of mandatory CSR. Many shareholders believe that CSR will undermine their interests, but this belief is contrary to the essence of mandatory CSR, which is designed to protect their long-term interests. Empirical evidence of CSRs' benefits will be significant for these shareholders. Second, this study applies the long-term measurement perspective to measure the benefits of mandatory CSR. In this study, the long-term benefit of the shareholders, hereafter referred to as sustainable shareholders' value, is measured by earnings persistence (EP), which shows sustainable earnings or recurring profits (Penman and Zhang, 2002; Francis *et al*., 2004). The higher EP shown, the higher the sustainability of profit. This is in contrast to previous studies that generally used financial performance measures, such as return on assets, earnings per share (EPS), earnings before interest, taxes, depreciation and amortization, that only measure success in short-term periods (Gunawan, 2007; Fauzi *et al*., 2007; Oeyono *et al*., 2011; Hendarto and Purwanto, 2012). Finally, this study evaluates the success of mandatory CSR, especially in developing countries and whether its implementation in countries such as Indonesia can serve as a model for other developing countries looking to implement similar regulations.

The remaining sections of the paper are as follows. Section 2 presents the literature review and hypothesis development. Section 3 shows the research methods. Section 4 describes the analysis and discussion, including the empirical findings and Section 5 concludes and examines the study's limitations.

2. Literature review and hypothesis development

2.1 Corporate social responsibility in Indonesia

CSR implementation is still relatively new in Indonesia. CSR was initially only mandatory for state-owned enterprises, beginning in 2003; however, it had little appeal in other industries. With the issuance of Law No. 40 of 2007 on Limited Liability Companies, when the Indonesian Government mandated CSR for businesses engaged in natural resources and related industries, the impact of CSR became enormous (Sheehy and Damayanti, 2019). The Indonesian Governments' proactive actions to mandate CSR are in line with the governments' primary role to facilitate implementation guidelines (Matten and Moon, 2004). Although required, CSR was initially rejected by businesses, but they eventually began to accept and comply.

The eventual acceptance of CSR activities in Indonesia reveals an increasing awareness of the importance of CSR, especially for companies operating in global markets (Uriarte, 2008). A 2008–2009 survey of public companies, whose business activities related to natural resources, found that 68% responded positively to mandatory CSR (Juniarti, 2012). The market also exhibited an appreciation for the companies that implemented CSR activities before it was made mandatory; they enjoyed an abnormal positive return (Hendarto and Purwanto, 2012).

2.2 Sustainable shareholder value

The Dow Jones Sustainability Index defines sustainability as an approach that enables businesses to generate long-term shareholder value by using various opportunities and managing the risks posed to business activities carried out on the environment and socially (Knoepfel, 2001). Sustainability is a business opportunity that can help companies achieve success and increase economic performance, which is measured through profit, long-term competition and company reputation (Malovics *et al.*, 2008). It provides managers with a new business framework that can lead to increased efforts, reduced costs and improved quality (Larson *et al.*, 2000; Hart and Meilsten, 2003; Steurer *et al.*, 2005).

Sustainability is essential to creating sustainable value for shareholders (Lopez *et al.*, 2007). In the long run, sustainable companies will have more predictable results and fewer unexpected events because companies have adequately managed. Investors will look for sustainable companies, not for short performance, because sustainable companies promise substantial future value (Knoepfel, 2001; Herrmann, 2004). Thus, shareholder value is associated with long-term value and is not narrowly interpreted as maximizing annual profits by ignoring the sustainability of shareholder value. From a sustainability perspective, companies' efforts to maximize shareholder value should not harm other stakeholders through reducing investments in research and development, compromising employee safety, cutting expenses for technology development to reduce environmental impact (Bistrova and Lace, 2012; Bistrova *et al.*, 2014) or managing the accounting data (Chan *et al.*, 2006).

The notion of using sustainable shareholder value is based on the sustainability perspective, which states that companies that pay attention to the impact of their business activities through CSR implementation will be able to sustainably. Sustainable shareholder value can be produced by companies that implement CSR activities consistently. Companies are considered viable when they generate positive value both for shareholders and other stakeholders (Laszlo, 2008). This research proposes EP as the proxy of sustainable shareholder value.

Therefore, the measurement of sustainable shareholder value is crucial to this study as it must be able to capture the capability of the companies studied to generate sustainable shareholder value. Previous research (Herrmann, 2004; Hillman and dan Keim, 2001) used market value added, which represents the difference between the market value of equity and the capital invested in a company to measure shareholder value. Godfrey *et al.* (2009) applied cumulative abnormal return as the proxy of shareholder value. This study uses EP as the proxy of sustainable shareholder value because the higher the EP exhibited, the higher the sustainability of earnings. Companies' ability to generate EP shows their abilities to provide long-term benefits to their shareholders; they create sustainable shareholder value because EP reveals profit continuity or recurrent profits (Steurer *et al.*, 2005; Penman and Zhang, 2002; Francis *et al.*, 2004).

EP is an attribute of earnings quality (Baginski *et al.*, 1999; Dechow and Dichev, 2002; Francis *et al.*, 2004; Belkaoui, 2004). Profit has quality if it has a high EP. To show that EP represents the viability of earnings, this study applies further testing to EP. The first additional test is the reliability of the coefficient of EP, and the second is the applied stationarity test of EP.

2.3 Stakeholder theory

Stakeholder theory states that the sustainability and success of an organization depends on the satisfaction of both economic and non-economic objectives by fulfilling the interests of a wide range of stakeholders (Pirsch *et al.*, 2007). Motivation to satisfy the interests of stakeholders is based on the notion that accommodating the stakeholder interests will impact economic welfare, competitiveness, loyalty and customers' trust (Mitchell *et al.*, 1997; Donaldson and Preston, 1995; Jones, 1995). Proponents of stakeholder theory believe that fulfilling the diverse interests of stakeholders will result in good financial performance. Cornell and Shapiro (1987) and Frooman (1997) confirmed that companies that ignore the social environment destroy the welfare of shareholders. Primary stakeholders are essential stakeholders for a company because, without their continued participation, company sustainability will be disrupted (Hilman and Keim, 2001). Primary stakeholder groups are typically comprising shareholders and investors, employees, customers and suppliers. Secondary or non-participant stakeholders, are those who influence and are influenced by the actions of the company but are not directly involved in transactions with the company (Clarkson, 1995).

According to stakeholder theory, management cannot meet the interests of the shareholders at the expense of other stakeholders. Management has the responsibility to ensure that all interests are accommodated (Donaldson and Preston, 1995; Jones, 1995). Approaches that emphasize maximizing value for shareholders at the expense of other stakeholders are unlikely to succeed. For example, paying minimum wage to employees and using them under poor working conditions negatively impacts productivity; this is counter-productive to the effort to reduce costs (Bird *et al.*, 2007). Therefore, the primary task of managers within the paradigm of stakeholder theory is to ensure stable support and balance the interests of various stakeholders to ensure they can continuously maximize their benefits (Freeman and Phillips, 2002).

2.4 Hypothesis development

Shareholders, as one of the primary stakeholders, have a considerable concern regarding CSR practices. According to shareholder theory, expenditures for CSR activities violate managements' fiduciary responsibility to shareholders (Friedman, 1970; Griffin and Mahon, 1997) because spending on social activities increase company costs and do not economically benefit shareholders (Bansal, 2005). In contrast, stakeholder theory views CSR as a company's effort to accommodate various stakeholders' interests, including shareholders and to secure their support of company operations (Donaldson and Preston, 1995). Stakeholder support will enable the company to create value for them, including shareholders (Clacher and Hagendorff, 2012). Therefore, the company's attention to stakeholders through the implementation of CSR, is not just an effort to avoid violations, but to produce value for shareholders as well (Friedman, 1970; Porter and Kramer, 2011; Peloza, 2006).

Mandatory CSR also aims to secure the long-term interests of shareholders (McBarnet, 2009; Herrmann, 2004). Supported by the sustainability perspective, mandated CSR allows companies to reduce the costs and risks that arise from sabotage, demonstrations and penalties incurred for environmental damage. Mandatory CSR guarantees the sustainability of CSR implementation because the law requires companies to comply. Therefore, CSR implementation will be more stable in the future; costs will continue to be controlled and reputation will increase, which will, in turn, increase future profit stability. Thus, mandated CSR will enable companies to generate sustainable earnings in the long run (Lawrence and Weber, 2008; Larson *et al.*, 2000; Achda, 2006; Hart and Meilsten, 2003). EP is as the proxy of sustainable earnings or recurring profits (Penman and Zhang, 2002; Francis *et al.*, 2004). Higher EP indicates higher profit sustainability. Thus, mandated CSR will protect the long-term interest of shareholders through its ability to produce sustainable profits, which represent sustainable shareholder value.

The above discussions lead to the following hypothesis:

H1: Mandatory CSR (CSR Index) is positively associated with EP.

3. Research method

3.1 Model of analysis

The proposed model includes several control variables that were tested simultaneously. The control variables consist of two groups, namely, operational characteristics and firm-specific characteristics. A company's profitability is highly dependent on its operational characteristics, such as sales volatility, cash flow volatility, operating cycle and the proportion of negative earnings (Dechow and Dichev, 2002; Francis *et al.*, 2004; Laksmana and Yang, 2009). Therefore, this study includes aspects of a company's operational conditions as control variables because its potential affects current and future earnings.

The second group is firm-specific characteristics, which includes leverage, firm size (Holbrook, 2010; Clacher and Hagendorff, 2012; Penman and Zhang, 2002), book-to-market equity (BME) (Fama and French, 1995; Fama *et al.*, 1969), competition intensity and industry profiles (Kleine and Hauff, 2009). Companies that are highly leveraged are less sustainable than companies with low levels of leverage (Waddock and Graves, 1997; McGuire *et al.*, 1988). The greater a company's size, the higher its capacity to generate revenue and cash from revenue (Francis *et al.*, 2004; Dechow and Dichev, 2002; Laksmana and Yang, 2009; Hong and Anderson, 2011). BME reflects the level of risk of earnings perceptions (Fama and French, 1995; Penman and Zhang, 2002). Low BME shows high EP and vice versa. Competition intensity describes the competition level among companies in the same industry. The higher the level of competition, the more obstacles companies face in running their operations efficiently and the more obstacles that could interfere with the potential for sustainable profits (Li *et al.*, 2008).

Industry profile is critical to determining performance and will be explored in the CSR association model and in relation to sustainable shareholder value. Industry profiles can be categorized as high profile or low profile (Newson and Deegan, 2002). Companies included in the high-profile group are companies that have a greater impact on the environment and are subject to higher cost rules for controlling pollution, and vice versa for low-profile industry groups (Konar and Cohen, 2001). High-profile industries are negatively associated with EP, when compared to low-profile companies (Newson and Deegan, 2002; Konar and Cohen, 2001).

The research model of this study is as follow:

$$\begin{aligned} EP_{i,t} = \; & \beta_0 + \beta_1 CSRI_{i,t-1} + \beta_2 PROF_{i,t-1} + \beta_3 PROF_{i,t-1} * CSRI_{i,t-1} + \beta_4 VOP_{i,t-1} \\ & + \beta_5 VOK_{i,t-1} + \beta_6 OPEC_{i,t-1} + \beta_7 NEG_{i,t-1} + \beta_8 LEV_{i,t-1} \\ & + \beta_9 FIRM_{i,t-1} + \beta_{10} BME_{i,t-1} + \beta_{11} COM_{i,t-1} + \varepsilon_{it} \end{aligned} \quad (1)$$

3.1.1 Variables operationalization. Dependent Variable:

- *Earnings Persistence (EP).* This study uses an AR1 model to measure the persistence of earnings [1]. The AR1 model requires profit data for several previous periods, generally greater five years, to measure the persistence of earnings. The first step to calculating EP is regressing adjusted EPS for the year with lag adjusted EPS using the first autocorrelation model (AR1) as follows:

$$X_{j,t} = \varnothing_{0,j} + \varnothing_{1,j} X_{j,t-1} + \mu_{j,r} \quad (2)$$

where:

$X_{j,t}$ = adjusted EPS year $_t$

$X_{j,t-1}$ = adjusted EPS year $_{t-1}$

Before using $\varnothing_{1,j}$ estimation, which captures the persistence of earnings, the reliability test is performed by examining the significance of the estimated $\varnothing_{1,j}$. If the significance value of *t* coefficient of EP is under the level of significance set, the figure meets reliability. Then, the unit root test is run for observations that meet the reliability test. This test is important to ensure that stationary assumptions are met. If the models are stationary, statistical properties in the future can be predicted based on historical data; thus, the model can be used to predict (Gujarati, 2004). The unit root test uses the Dickey-Fuller test, which is calculated as follows:

$$\Delta Y_t = \delta Y_{t-1} + \upsilon_t \tag{3}$$

$$\Delta Y_t = \beta_1 + \delta Y_{t-1} + \upsilon_t \tag{4}$$

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \upsilon_t \tag{5}$$

Model equation (3) does not incorporate the intercept and trend, while model equation (4) incorporates the intercept but no trend, and model equation (5) enters both the intercept and trend, with *H0*: $\delta = 0$ and *H1*: $\delta \neq 0$; if *H0* is not successfully rejected, then the data contain a unit root. The critical value to accept or reject *H0* using τ statistic is set at 0.1, 0.05 or 0.1; if the value τ produced is smaller than τ at the critical level, then *H0* cannot be rejected and the data contain a unit root (Gujarati, 2004).

Independent Variables:

- *Corporate Social Responsibility Index (CSRI).* This research uses GRI Guideline version 3.1 to measure CSR implementation and CSR scores. GRI is a reputable guideline and has been adopted by many countries (Boesso *et al.*, 2013). GRI can be used to measure CSR implementation; it does not matter whether CSR is mandatory or voluntary, because mandatory or voluntary is determined by the intentions of the authorities. Thus, *CSRI* indicates the level of CSR implementation; it cannot be used to assesses whether the higher the CSRI, the more mandatory the CSR or vice versa. *CSRI* is measured by comparing reported CSR with the GRI guideline; companies that report their activities under GRI guidelines are given 1 and companies that do not report are given 0. Then, all scores are added and scaled by the total scores of GRI to obtain CSR scores for each company.

Control Variables:

- *Industry Profile (PROF)* categorizes companies into high- or low-profile industries. Companies included in high-profile groups are companies whose operational activities significantly damage the environment. They will be subject to more rules and regulations to control the effects of pollution and other environmental impacts than companies in low-profile industry groups (Konar and Cohen, 2001). Industrial sub-sectors are classified into high profile and low profile, referring Newson and Deegan (2002). Industry profile is measured using dummy variables that correspond to the industrial group, 1 for high-profile industries and 0, otherwise.
- *Sales Volatility (VOP)* is the degree of spread of sales, measured by the standard deviation of sales and scaled by total assets during the previous five years (Dechow and Dichev, 2002; Francis *et al.*, 2004; Laksmana and Yang, 2009).
- *Operating Cash Flows Volatility (VOK)* is the degree of spread of cash flow, measured by the standard deviation of operating cash flow and scaled by total assets during the previous five years (Dechow and Dichev, 2002; Francis *et al.*, 2004; Laksmana and Yang, 2009).
- *Operating Cycle (OPEC)* is a series of transactions the company's operations to an entity generating cash receipts from customers (Dechow and Dichev, 2002; Francis *et al.*, 2004; Laksmana and Yang, 2009), as measured by the number of operating cycles.
- *Proportion of Negative Earning (NEG)* is a loss or negative profit before extraordinary items for the previous five years (Dechow and Dichev, 2002; Francis *et al.*, 2004;

Laksmana and Yang, 2009), measured by the frequency of loss during the previous five years.

- *Leverage (LEV)* is total debt divided by total assets (Mercer, 2004; Dimitrov and Jain, 2008).
- *Firm Size (FIRM)* is measured by the log market value of equity (Belkaoui, 2004; Bird *et al.*, 2007; Holbrook, 2010).
- *Book-to-Market Equity (BME)* is measured by the book value of equity divided by the market value of equity (Fama and French, 1995; Penman and Zhang, 2002).
- *Competition Intensity (COM)* is measured using the Herfindahl index (HHI). Calculation of HHI is obtained using the following formula (Li *et al.*, 2008).

$$HHI_{it} = S_1{}^2 + S_2{}^2 + S_3{}^2 + \ldots + S_n{}^2 \quad (6)$$

where:
$S_1, S_2 \ldots S_n$ = market share of a firm in a similar industry.

3.2 Research sample

These research results are expected to be generalized to the public companies listed on the Indonesia Stock Exchange. Samples are selected according to the following criteria:

- companies available in two concurrent years (2012 and 2013);
- companies in the financial sector are excluded [2];
- companies have implemented CSR for a minimum of five consecutive years since 2007;
- EPS data is available for at least seven years before 2012 and 2013.

4. Analysis and discussion

There were 668 total companies with data available for 2012 and 2013; after removing companies that had not consistently implemented CSR for five consecutive years, companies in the finance, banking and insurance sectors and companies that did not have available EPS data for the previous seven years, 214 firm-years meet the sample criteria (hereafter referred to as Group A). However, after proofing the reliability and stationarity of EP, 106 suitable samples remain (hereafter referred to as Group B). Data represent all industrial sectors except the financial sector, which has specific reporting requirements. Table 1 shows the composition of an industrial sector sample.

Table 1 Sample per industrial sector

No	*Industrial sector*	*Total*	*(%)*
1	Miscellaneous industry	12	11
2	Chemical and basic industry	22	21
3	Infrastructure, utilities and transportation	6	6
4	Mining	4	4
5	Agriculture	3	3
6	Consumer goods industries	15	14
7	Trade, services and investment	26	24
8	The property, Real estate	18	17
	Total	*106*	*100*

Table 2 shows the descriptive statistics of Group A, and Table 3 shows the descriptive statistics of Group B. The profile of EP is much better in Group B compared to Group A. This can be seen in the smaller standard deviation (0.193) of *EP* in Group B, compared to the standard deviation of Group A (0.422). Group A have an average *CSRI* of 0.226 and a lower standard deviation, which shows that the *CSRI* in this group is quite homogeneous. There are 115 companies with high CSR scores, 40% of which are high-profile companies. Although the number of the high-profile industry, which has high CSR scores, only 40%, the highest score of CSR, which remains owned by companies that are in a high-profile industry. Companies with the highest CSR scores are found in Group B. This indicates that companies with a high *CSRI* also have stable and sustainable earnings.

4.1 Hypothesis testing

The main purpose of this study is to seek empirical evidence of the long-term benefit of mandatory CSR for the shareholders. Long-term benefits cannot be achieved through short-term implementation; therefore, hypothesis testing is only applied to companies that have adequate time for CSR implementation. This study requires sample companies to have at least five years of CSR implementation, and then the value of CSR for the shareholder is measured for those companies. Unlike prior studies, which did not require a minimum

Table 2 Descriptive statistics of Group A

No	*Variable*	*Mean*	*Median*	*Max*	*Min*	*Std dev*
1	EP	0.737	0.779	0.992	0.360	0.193
2	CSRI	0.232	0.238	0.571	0.083	0.106
3	VOP	0.172	0.101	1.150	0.010	0.202
4	VOK	0.066	0.052	0.244	0.006	0.046
5	OPEC	4.043	4.063	5.678	2.279	0.845
6	NEG	0.074	0.000	0.833	0.000	0.157
7	LEV	0.536	0.446	3.080	0.097	0.491
8	FIRM	6.196	6.199	8.412	4.579	0.909
9	BME	0.566	0.698	3.108	−18.83	2.204
10	COM	0.313	0.256	0.854	0.074	0.183
11	PROF			1	0	
	HIGH (*N* = 47)			44.33%		
	LOW (*N* = 59)				55.66%	

Table 3 Descriptive statistics of Group B

No	*Variable*	*Mean*	*Median*	*Max*	*Min*	*Std dev*
1	EP	0.440	0.525	0.992	−0.920	0.422
2	CSRI	0.226	0.238	0.571	0.059	0.105
3	VOP	0.224	0.100	2.370	0.010	0.379
4	VOK	0.076	0.051	1.452	0.003	0.116
5	OPEC	3.989	4.017	5.994	1.758	0.867
6	NEG	0.149	0.000	1.000	0.000	0.240
7	LEV	0.578	0.467	8.249	0.070	0.715
8	FIRM	6.095	6.033	8.412	4.222	0.885
9	BME	0.800	0.802	7.352	−18.83	1.779
10	COM	0.300	0.240	0.910	0.070	0.188
11	PROF			1	0	
	HIGH (*N* = 97)			45.33%		
	LOW (*N* = 117)				54.62%	

period of CSR implementation, this study is concerned with the benefits achieved after a certain period of implementation and uses the long-term performance perspective to measure the long-term benefits of CSR by adopting the concept of EP.

The study first tested the association between CSR and sustainable shareholder value proxied by EP, excluding all control variables (Model 1-a). The results, as seen in Table 4, show that *CSRI* has a significant positive association with EP (0.01). CSR can explain as much as a 5.46% change in the variable persistence of earnings. Subsequent testing, by incorporating control variables into a model (Model 1-b), demonstrates that the association between CSR and EP depends on the industry profile. This is indicated by the coefficient of variable *PROF* and its interaction with CSR (*PROF* CSRI*). In the high-profile industry, the implementation of CSR is very influential on EP. If the companies ignore CSR, they will even get a lower EP than the low-profile companies. Conversely, if the high-profile companies implement CSR, then they will be able to achieve a much higher EP.

As a comparison, the hypothesis is also tested to all observations (Group A) without considering the reliability and stationarity of EP, as presented in Table 5. The results differ from Group B in that *PROF* that is not proven significant. This means that there is no difference in the association model of CSR and EP in both industry profile groups. Testing of an overall sample without considering reliability and stationarity could be misleading as it leads to the wrong conclusion regarding the association between CSR and EP. From the power of explanation, testing of all observations only has adjusted R^2 of 14.88%, which is lower than the adjusted R^2 of 25.75% for the observations in Group B. Therefore, model associations in Group B better explain the change in EP compared to the models generated from testing throughout the observation.

4.2 Test of partial aspects of corporate social responsibility

CSR covers three aspects, including economic, environmental and social responsibility. According to the integrative sustainability triangle, companies should engage in all three aspects in a balanced way; no one aspect is more favored than the others (Kleine and Hauff, 2009). The balance of these three aspects will create sustainable shareholder value. Retesting the research hypotheses by separating CSR into economic, social and environmental aspects is important to prove that no single aspect of CSR alone could

Table 4 Hypothesis testing for Sample B

		Model 1–a			*Model 1–b*	
Variable	*Coefficient*	*t-stat*	*Sig*	*Coefficient*	*t-stat*	*Sig*
CSRI	0.457	2.668	(0.0088)***	−0.051	−0.221	
PROF				−0.287	−3.105	(0.0025)***
PROF CSR*				0.740	2.158	(0.0335)**
VOP				0.029	0.224	
VOK				0.088	0.198	
OPEC				−0.008	−0.341	
NEG				−0.043	−0.333	
LEV				−0.113	−2.744	(0.0073)***
FIRM				0.033	1.492	
BME				−0.014	−1.455	
COM				−0.040	−0.406	
C	0.632	3.938	(0.0000)***	0.708	3.493	(0.0007)***
R^2	0.063			0.335		
Adjusted R^2	0.055			0.257		
F-stat		7.118			4.341	
Prob (*F*-statistic)		0.009			0.000	
R^2	0.063			0.335		

create value for the shareholders. Scores for every aspect of CSR, which consists of economic aspects (Corporate Social Responsibility for Economic Aspect [CSREK]), environmental aspects (Corporate Social Responsibility for Environmental Aspect [CSRLN]) and social aspects (Corporate Social Responsibility for Social Aspect [CSRSO]) are obtained from the calculation of CSR scores.

Testing of each CSR aspect is only conducted on the group of high-profile refer to prior tests in which CSR is not critical for the low-profile group. The results show that CSREK, CSRLN and CSRSO do not have an association with EP (Table 6). This means that sustainable shareholder value cannot be created by a single aspect of CSR alone, which is consistent with the integrative sustainability triangle. These results are also compared with

Table 5 Hypothesis testing for Sample A

		Model 1-a			*Model 1-b*	
Variable	*Coefficient*	*t-stat*	*Sig*	*Coefficient*	*t-stat*	*Sig*
CSRI	0.776	2.888	(0.0043)***	0.545	1.995	(0.0474)**
PROF				−0.031	−0.483	
PROF CSR*				−0.040	−0.456	
VOP				−0.119	−1.249	
VOK				−0.050	−0.184	
OPEC				−0.119	−1.249	
NEG				−0.466	−3.694	(0.0003)***
LEV				−0.022	−0.492	
FIRM				0.043	1.189	
BME				−0.032	−1.899	(0.0589)*
COM				0.142	0.949	
OPEC				−0.119	−1.249	
C				−0.050	−0.184	
R^2				0.011	0.280	
Adjusted R^2	0.264	3.938	***	0.121	0.387	
F-stat						
Prob (*F*-statistic)	0.038			0.193		
R^2	0.033			0.149		

Table 6 Partial test of association model of CSR

		CSR partial			*CSR all*	
Variable	*Coefficient*	*t-stat*	*Sig*	*Coefficient*	*t-stat*	*Sig*
CSREC	2.428	0.961				
CSREV	0.383	0.503				
CSRSO	0.533	0.714				
CSRI				0.652	2.043	(0.0476)**
VOP	0.271	1.097		0.273	1.169	
VOK	0.149	0.167		0.323	0.413	
OPEC	−0.030	−0.531		−0.036	−0.635	
NEG	0.310	1.636		0.313	1.709	(0.0952)*
LEV	−0.150	−1.787		−0.155	−1.899	(0.648)*
FIRM	0.006	0.259		0.003	0.129	
BME				−0.055	−1.120	
COM	−0.362	−1.802		−0.349	−1.833	(0.0743)*
C	0.721	2.063	(0.0460)**	0.795	2.510	(0.0162)**
R^2	0.357			0.352		
Adjusted R^2	0.171			0.206		
F-stat		1.922			2.415	

the results of total CSR testing (total CSR score), which confirms the association of CSR and EP. Therefore, all aspects of CSR contribute to sustainable shareholder value, but they are unable to produce value individually.

4.3 Robustness test

The study results support measuring CSR benefits several years after the implementation period. Companies that consistently implemented CSR for at least five years generated sustainable shareholder value. This is in line with the study's hypothesis that mandatory CSR is positively associated with EP. To further test the research hypothesis, the researcher performed hypothesis testing in several time-based scenarios. The underlying argument is that the benefits of CSR may not be seen in the short-term because it takes time for the company to influence and convince stakeholders. Samples from Group B is used to test the robustness of finding. Table 7 shows the results of the first two years of CSR implementation; it shows no association between CSR and sustainable shareholder value presented in Table 7, shows similar results. However, as both tests do not consider adequate implementation time, their conclusions can be misleading.

Table 7 The first two and three years of CSR implementation

	The first two years of implementation			*The first three years of implementation*		
Variable	*Coefficient*	*t-stat*	*Sig*	*Coefficient*	*t-stat*	*Sig*
CSRI	1.373	0.361		1.473	0.602	
PROF	1.498	1.863	(0.0643)*	0.897	1.671	(0.0959)*
VOP	0.187	0.226		0.103	0.186	
VOK	0.001	0.236		0.001	0.243	
OPEC	−0.190	−0.468		−0.024	−0.088	
NEG	−0.902	−0.542		−0.914	−0.795	
LEV	−0.703	−0.728		−0.460	−0.701	
FIRM	0.429	0.971		0.249	0.844	
COM	−0.002	−0.001		0.121	0.098	
C	−2.521	−0.547		−1.730	−0.543	
R^2	0.047			0.031		
Adjusted R^2	−0.005			−0.003		
F-statistic		0.898			0.921	

Table 8 After three years of CSR implementation

Variable		*Model 1-b*	
	Coefficient	*t-stat*	*Sig*
CSRI	0.50162	1.79926	(0.0730)*
PROF	0.01140	0.27732	
VOP	−0.24852	−2.78185	(0.0057)***
VOK	−0.00015	−0.67325	
OPEC	−0.00643	−0.22893	
NEG	−0.47014	−3.59918	(0.0004)***
LEV	0.00765	0.19473	
FIRM	0.00134	0.03374	
COM	0.15581	1.17438	
C	0.43678	1.04225	
R^2	0.10729		
Adjusted R^2	0.08103		
F-statistic		4.08607	
Prob (*F*-statistic)		0.00006	

A subsequent test is performed to consider longer implementation times. This test looks at companies after three years of CSR implementation. Although the benefits are not yet fully seen, the result could indicate CSRs' role in achieving sustainable shareholder value. The results support an association between CSR and sustainable shareholder value, as shown in Table 8.

4.4 Discussion

In Eastern societies such as Indonesia, compulsory CSR is more appropriate than voluntary CSR due to corporations' low levels of awareness of their environmental and social responsibilities; compulsory CSR mandates participation through laws and regulations (Gayo and Yeon, 2013). The legal certainty of mandatory CSR, on the other hand, protects the interests of shareholders because it provides a consistent framework under which to implement CSR. Although the up-front costs of implementation are high, CSR, in the long run, helps companies avoid unnecessary costs, resulting in better operational performance, better reputations and more sustainable shareholder value. The research results support that the hypothesis that mandatory CSR has a positive and significant association with sustainable shareholder value proxied by EP. Mandatory CSR not only stimulates and strengthens public pressure but also helps create companies that are socially responsible to stakeholders, including shareholders. Mandated CSR provides legal certainty for all parties, thus reducing companies' risk of unexpected future costs. The results of this study also address the benefits provided to shareholders by companies that consistently implement CSR and simultaneously strengthen the confidence of the proponent of sustainable business practices that mandatory CSR companies earn sustainable profits in the long-term (Lawrence and Weber, 2008; Larson *et al.*, 2000; Achda, 2006). The probability of experience fluctuating earnings is smaller in socially responsible companies than less socially responsible companies. The results show that more socially responsible companies can produce profits persistently.

In regard to CSR obligations in Indonesia, which focuses on high-profile companies in industries that pose a greater threat to the environment, the results show that industry profile plays a critical role. High-profile companies have a more significant impact on the environment and are subject to higher costs for pollution control and other costs associated than low-profile companies. The impact of CSR on sustainable shareholder value between high and low industrial profiles differ significantly. Companies in high-profile industries that do not adhere to mandatory CSR bear more significant consequences than companies in low-profile industries.

According to stakeholder theory, companies that accommodate stakeholders' interests will have their support to continue operations (Donaldson and Preston, 1995). Shareholders' concerns that CSR implementation will harm their interests have not been proven (Friedman, 1970; Griffin and Mahon, 1997), as this study shows that mandated CSR protects shareholder interests in the long run. The implementation of mandatory CSR enables managers to increase shareholder value without harming other stakeholders (Clacher and Hagendorff, 2012). A company's willingness to sacrifice current profits will ultimately generate sustainable profit and sustainable shareholder value.

These results are also consistent with the integrative sustainability triangle (Kleine and Hauff, 2009), which states that the alignment of economic, environmental and social aspects of CSR are essential. Companies oriented toward only economic, ecological or social aspects are unlikely to be sustainable. When a company emphasizes economic returns over their environmental and social responsivities, the environment and society at large suffers, which ultimately impacts the company's overall sustainability (Stankeviciene and Nikonorovaa, 2014; Dyllick and Hockerts, 2002).

This study's findings have some implications for company managers. First, managers should ensure that CSR implementation is important to their shareholders. If shareholders believe CSR is an unnecessary cost, it will undermine their value. Therefore, managers need to convince their shareholders that complying with mandatory CSR is to their benefit. However, because benefits will not be immediately achieved, managers should provide regular reports on CSR activities to maintain shareholder trust. Second, managers in high-profile industries need to pay more attention to CSR activities because of the greater risk they pose to the environment. Shareholders focus a lot of attention on high-profile industries; the failure of managers to meet their social responsibility obligations will significantly impact company performance.

5. Conclusion and limitation

This study shows that mandatory CSR is positively and significantly associated with sustainable shareholder value proxied by EP and that mandatory CSR protects the long-term interest of shareholders. A company's willingness to sacrifice current profits enables a company to achieve sustainable shareholder value. Implementation of CSR activities empowers managers to increase shareholder value without harming other stakeholders. Industry profile offers an essential contribution to the building of the association model. In high-profile industries, mandatory CSR has a significant role in achieving sustainable shareholder value, which is contrary to low-profile industries where CSR implementation does not help achieve sustainable shareholder value. Additional testing (i.e. testing per CSR aspect and testing under various time-based scenarios) supports the above results. It also indicates that there is no dominant CSR aspect that affects the achievement of sustainable shareholder value over others, which is consistent with the integrative sustainability triangle. Results are robust through testing under various scenarios of time.

This study concludes that mandatory CSR provides a long-term benefit to shareholders, where the benefit was measured after a period of CSR implementation that allowed firms the opportunity to build the social trust of their stakeholders. Thus, social trust could mediate the effect of mandatory CSR on sustainable shareholder value. Nevertheless, this study does not focus on testing the indirect effect of mandatory CSR on sustainable shareholder value through social trust; therefore, future studies should explore the indirect effect of mandatory CSR on sustainable shareholder value, through social trust.

The long-term benefits of mandatory CSR are crucial in this research; however, this study only applies a single measurement based on accounting; future research should focus on other financial and non-financial measures that represent sustainable shareholder value. This study was also unable to access internal sources to measure company CSR implementation and relied on the information presented in annual reports. Future research can focus on other sources, such as inquiries or external assurances, to measure CSR and enhance the validity of the CSR measurement.

Notes

1. This model is more in line with the objective of this study than other proposed models, such as sustained earnings model by (Penman and Zhang, 2002), which is only able to estimate the persistence of earnings one year ahead. This model would be inappropriate because persistence in earning implies long-term profits (Baginski *et al.*, 1999).
2. This study excludes the financial industry sub-sector, such as banks, insurance and financial institutions because companies in these sub-sectors have very specific financial statements.

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