UNIVERSITAS KRISTEN PETRA

Juniarti . <yunie@petra.ac.id>

# Social Responsibility Journal - SRJ-03-2019-0114

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Wed, Mar 27, 2019 at 7:03 PM
Reply-To: davideacrowther@gmail.com
To: yunie@petra.ac.id

27-Mar-2019

Dear Dr. -:

Your manuscript entitled "Mandatory CSR: Does it provide long-term benefits to shareholders?" has been successfully submitted online and is presently being given full consideration for publication in the Social Responsibility Journal.

Your manuscript ID is SRJ-03-2019-0114.

Please mention the above manuscript ID in all future correspondence or when calling the office for questions. If there are any changes in your street address or e-mail address, please log in to ScholarOne Manuscripts at https://mc.manuscriptcentral.com/srj and edit your user information as appropriate.

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Thank you for submitting your manuscript to the Social Responsibility Journal.

Yours sincerely,
David Crowther
Social Responsibility Journal Editorial Office

UNIVERSITAS KRISTEN PETRA

**Juniarti . <yunie@petra.ac.id>**

# Social Responsibility Journal - Decision on Manuscript ID SRJ-03-2019-0114

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Fri, Jun 7, 2019 at 8:20 PM
Reply-To: hfauzi@icseard.uns.ac.id
To: yunie@petra.ac.id

07-Jun-2019

Dear Dr. Juniarti,

Manuscript ID SRJ-03-2019-0114 entitled "Mandatory CSR: Does it provide long-term benefits to shareholders?" which you submitted to the Social Responsibility Journal, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

The reviewer(s) have recommended some revisions to your manuscript. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

To revise your manuscript, log into https://mc.manuscriptcentral.com/srj and enter your Author Centre, where you will find your manuscript title listed under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number has been appended to denote a revision.

You will be unable to make your revisions on the originally submitted version of the manuscript. Instead, revise your manuscript using a word processing program and save it on your computer. Please also highlight the changes to your manuscript within the document by using the track changes mode in MS Word or by using bold or coloured text.Once the revised manuscript is prepared, you can upload it and submit it through your Author Centre.

When submitting your revised manuscript, you will be able to respond to the comments made by the reviewer(s) in the space provided. You can use this space to document any changes you make to the original manuscript. In order to expedite the processing of the revised manuscript, please be as specific as possible in your response to the reviewer(s).

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Once again, thank you for submitting your manuscript to the Social Responsibility Journal and I look forward to receiving your revision.

Yours sincerely,
Prof. Hasan Fauzi
Editor, Social Responsibility Journal
hfauzi@icseard.uns.ac.id, hfz1069@gmail.com

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Major Revision

Comments:
See attached review.

Additional Questions:
<b>1. Originality: </b> Does it add to the subject area/body of knowledge in any way?: Yes - I believe that the manuscript has potential to contribute to our knowledge on the relationship of CSR and long-term financial

performance.

<b>2. Analytical rigour: </b> Does the article demonstrate soundness in the way it has been researched and/or argued?: This needs help. See notes

<b>3. Clarity and readability: </b>Is attention paid to clarity of expression and readability? Points to note: sentence structure, jargon, acronyms.: The manuscript needs a good English edit and needs to be rewritten for clarity.

<b>4. Research applications: </b>Does the article suggest areas for further research? Or practical implications - are implications for practitioners clearly drawn out?: This needs to be strengthened.

<b>5. Internationality: </b>Will the article be of interest to an international audience?: Some what - it is focused on Indonesia onl.

Reviewer: 2

Recommendation: Major Revision

Comments:
dear author,
please find the originality of your study (by finding the gap) and uses research model as fit as hypothesis developing.

Additional Questions:
<b>1. Originality: </b> Does it add to the subject area/body of knowledge in any way?: this paper is not sufficiently original. It does not articulate originality and does not add body of knowledge clearly.

**the word "Mandatory CSR", but this study explained voluntary CSR much in developed countries

<b>2. Analytical rigour: </b> Does the article demonstrate soundness in the way it has been researched and/or argued?: **this paper did not argue the earnings persistence as long-term benefits to shareholders phenomenon

**to many control variables used, that there are no explanation why using it and no connected to the aim of the study

**there is no explanation using interaction CSRI and industry profile and why the interaction only for PROF variable, not to all control variables

<b>3. Clarity and readability: </b>Is attention paid to clarity of expression and readability? Points to note: sentence structure, jargon, acronyms.: **this paper should have focused only the benefit of Mandatory CSR and earnings persistence

**the use phrase of "sustainable earnings" vs "sustainability of earnings" the framework of CSR theory need more explanation

**theoretically flawed when developing hypothesis

**page 17 line 19

<b>4. Research applications: </b>Does the article suggest areas for further research? Or practical implications - are implications for practitioners clearly drawn out?: **the further research suggestion does not correspond to the limitations of the study

**practical implication: this study must be careful of using GRI as measurement of Mandatory CSR index.

**objective of this study has not contributed yet to practitioners what they should do

<b>5. Internationality: </b>Will the article be of interest to an international audience?: ** this paper need more in depth explanation the urgency Indonesia as develop countries for international audience.

there are no explantion why this study important to CSR reporting research

because this study used GRI (as Mandatory???), which is used by other countries, too
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*** How-to-submit-a-revision.pdf**

UNIVERSITAS KRISTEN PETRA

Juniarti . <yunie@petra.ac.id>

# Social Responsibility Journal - SRJ-03-2019-0114.R1

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Sun, Sep 1, 2019 at 8:06 PM
Reply-To: davideacrowther@gmail.com
To: yunie@petra.ac.id

01-Sep-2019

Dear Dr. -:

Your revised manuscript entitled "Mandatory CSR: Does it provide long-term benefits to shareholders?" has been successfully submitted online and is presently being given full consideration for publication in the Social Responsibility Journal.

Your manuscript ID is SRJ-03-2019-0114.R1.

Please mention the above manuscript ID in all future correspondence or when calling the office for questions. If there are any changes in your street address or e-mail address, please log in to ScholarOne Manuscripts at https://mc.manuscriptcentral.com/srj and edit your user information as appropriate.

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If you would like to publish your article open access please contact openaccess@emeraldgroup.com

Thank you for submitting your manuscript to the Social Responsibility Journal.

Yours sincerely,
David Crowther
Social Responsibility Journal Editorial Office

UNIVERSITAS KRISTEN PETRA

Juniarti . <yunie@petra.ac.id>

# Social Responsibility Journal - Decision on Manuscript ID SRJ-03-2019-0114.R1

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Thu, Oct 17, 2019 at 12:18 AM
Reply-To: hfauzi@icseard.uns.ac.id
To: yunie@petra.ac.id

16-Oct-2019

Dear Dr. -:

Manuscript ID SRJ-03-2019-0114.R1 entitled "Mandatory CSR: Does it provide long-term benefits to shareholders?" which you submitted to the Social Responsibility Journal, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

The reviewer(s) have recommended major revisions to the submitted manuscript, before it can be considered for publication. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

To revise your manuscript, log into https://mc.manuscriptcentral.com/srj and enter your Author Centre, where you will find your manuscript title listed under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number has been appended to denote a revision.

You will be unable to make your revisions on the originally submitted version of the manuscript. Instead, revise your manuscript using a word processing program and save it on your computer. Please also highlight the changes to your manuscript within the document by using the track changes mode in MS Word or by using bold or coloured text.

Once the revised manuscript is prepared, you can upload it and submit it through your Author Centre. The deadline for uploading a revised manuscript is 15-Jan-2020 from receiving this email. If it is not possible for you to resubmit your revision within this timeframe, we may have to consider your paper as a new submission.

When submitting your revised manuscript, you will be able to respond to the comments made by the reviewer(s) in the space provided. You can use this space to document any changes you make to the original manuscript. In order to expedite the processing of the revised manuscript, please be as specific as possible in your response to the reviewer(s).

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Once again, thank you for submitting your manuscript to the Social Responsibility Journal and I look forward to receiving your revision.

Yours sincerely,
Prof. Hasan Fauzi
Editor, Social Responsibility Journal
hfauzi@icseard.uns.ac.id, hfz1069@gmail.com

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Major Revision

Comments:
1. The references are outdated - only one reference is after 2015. Authors need to look at current research and add those references and adjust the paper to reflect current research on CSR - such as CSR is positively related to financial performance.

2. The introduction section ad abstract is not well written or clear. it appears that someone else wrote the other sections as they are more clear. Additionally, what is said in the introduction section doesn't always agree to what is in the body of the paper. Again, I believe that you need a editor to make sure the paper flows. For example, a

sentence should not repeat the same word in it if at all possible - for example page 1 second sentience of first full paragraph. For an example, a limitation as it is based on accounting measurement. What is that? Not sure why some information is in the literature review section - for example " The current study uses..." and the following paragraph.

3. Does GRI calculate the CSR score or do the researchers? Please explain.

4. The Variable Operations section need to be rewritten. It should have subcategories of Dependent variable, Independent Variable and Controlling Variables. In the Controlling Variably section, reorganization the presentation of the variables according to the way they are presented in the module. Additionally, there appears to variables described in the Variable Operations sections that are not in the model. Is the model correct as stated on page 8 - this model does not agree with the variables listed in the tables (4, 5 and 6). This is all confusing. Is there are more than one model - than it needs to be stated in the description of the models section.

Additional Questions:
<b>1. Originality: </b> Does it add to the subject area/body of knowledge in any way?: The research appears to be original and specifically to Indonesia.

<b>2. Analytical rigour: </b> Does the article demonstrate soundness in the way it has been researched and/or argued?: Needs significant work here - in the flow and making sure that all the sections agree with each other.

<b>3. Clarity and readability: </b>Is attention paid to clarity of expression and readability? Points to note: sentence structure, jargon, acronyms.: The manuscript needs significant editing - particularly in the introduction section and abstract. It is not well written and unclear. For example, a sentence should not repeat the same word in it if at all possible - for example page 1 second sentience of first full paragraph. For an example, a limitation as it is based on accounting measurement. What is that?

<b>4. Research applications: </b>Does the article suggest areas for further research? Or practical implications - are implications for practitioners clearly drawn out?: Adequate

<b>5. Internationality: </b>Will the article be of interest to an international audience?: Yes - this article will be of interest in all countries incorporating or looking into incorporating required CSR.

Reviewer: 2

Recommendation: Minor Revision

Comments:
you have a great progress

Additional Questions:
<b>1. Originality: </b> Does it add to the subject area/body of knowledge in any way?: the using word "long-term benefit(s)" which is the result shows only a year advance... what kind benefit that urgently needed by shareholders in the long term, has not yet explained

<b>2. Analytical rigour: </b> Does the article demonstrate soundness in the way it has been researched and/or argued?: what the different between table 7 the first 3 years of implementation from table 8 using model 1-b?

the result was only significant tested in certain period( 1 year advance and 3 year advance?) can it generalize long term?

<b>3. Clarity and readability: </b>Is attention paid to clarity of expression and readability? Points to note: sentence structure, jargon, acronyms.: some parts need re-explained
ex. the using model 1-b in table 8

the first implication, it is written ".... that managers are serious about implementing CSR" . what does the using word "serious" mean?

<b>4. Research applications: </b>Does the article suggest areas for further research? Or practical implications - are implications for practitioners clearly drawn out?: the article has already suggested further research to use other measurement of shareholder value, but still it is not related to the topic "long-term benefits"

there are practical implication for external assurance in measuring CSR, but not align with the topic " mandatory CSR .... long-term benefits"

<b>5. Internationality: </b>Will the article be of interest to an international audience?: this article need emphasizing

on why this topic important for a world wide shareholders or practitioners or regulator (as country or as world wide association)

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Juniarti . <yunie@petra.ac.id>

# Social Responsibility Journal - SRJ-03-2019-0114.R2

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Wed, Jan 15, 2020 at 7:29 PM
Reply-To: davideacrowther@gmail.com
To: yunie@petra.ac.id

15-Jan-2020

Dear Dr. -:

Your revised manuscript entitled "Mandatory CSR: Does it provide long-term benefits to shareholders?" has been successfully submitted online and is presently being given full consideration for publication in the Social Responsibility Journal.

Your manuscript ID is SRJ-03-2019-0114.R2.

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Thank you for submitting your manuscript to the Social Responsibility Journal.

Yours sincerely,
David Crowther
Social Responsibility Journal Editorial Office

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Juniarti . <yunie@petra.ac.id>

# Social Responsibility Journal - Decision on Manuscript ID SRJ-03-2019-0114.R2

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Wed, Feb 19, 2020 at 11:03 PM
Reply-To: hfauzi@icseard.uns.ac.id
To: yunie@petra.ac.id

19-Feb-2020

Dear Dr. Juniarti-:

Manuscript ID SRJ-03-2019-0114.R2 entitled "Mandatory CSR: Does it provide long-term benefits to shareholders?" which you submitted to the Social Responsibility Journal, has not been reviewed properly due to that the paper has laguange problems.

I strongly suggest that you get a good "professional' English edit and resubmit it to have good reviews.

To revise your manuscript, log into https://mc.manuscriptcentral.com/srj and enter your Author Centre, where you will find your manuscript title listed under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number has been appended to denote a revision.

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Once the revised manuscript is prepared, you can upload it and submit it through your Author Centre. The deadline for uploading a revised manuscript is 20-May-2020 from receiving this email. If it is not possible for you to resubmit your revision within this timeframe, we may have to consider your paper as a new submission.

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Once again, thank you for submitting your manuscript to the Social Responsibility Journal and I look forward to receiving your revision.

Yours sincerely,
Prof. Hasan Fauzi
Editor, Social Responsibility Journal
hfauzi@icseard.uns.ac.id, hfz1069@gmail.com

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Major Revision

Comments:
This paper is filled with grammar errors and it not written well. I do not feel I can do a good job reviewing this paper at its present state as it is too difficult to read and I do not feel it is my responsibility to edit it. I suggest that you get a good "professional' English edit.

Additional Questions:
1. Originality: Does it add to the subject area/body of knowledge in any way?: yes

2. Analytical rigour: Does the article demonstrate soundness in the way it has been researched and/or argued?: Yes

3. Clarity and readability: Is attention paid to clarity of expression and readability? Points to note: sentence structure, jargon, acronyms.: NO - very poor. This paper is filled with grammar errors and it not written well. I do not feel I can do a good job reviewing this paper at its present state as it is too difficult to read and I do not feel it is my responsibility to edit it. I suggest that you send the paper back to the authors and asked them to get a good "professional' English edit.

4. Research applications: Does the article suggest areas for further research? Or practical implications - are implications for practitioners clearly drawn out?: Good

5. Internationality: Will the article be of interest to an international audience?: Yes

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Juniarti . <yunie@petra.ac.id>

# Social Responsibility Journal - SRJ-03-2019-0114.R3

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Fri, Apr 24, 2020 at 10:07 PM
Reply-To: davideacrowther@gmail.com
To: yunie@petra.ac.id

24-Apr-2020

Dear Dr. -:

Your revised manuscript entitled "Mandatory CSR: Does it provide long-term benefits to shareholders? The revised: Does Mandatory CSR provide long-term benefits to shareholders?" has been successfully submitted online and is presently being given full consideration for publication in the Social Responsibility Journal.

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Thank you for submitting your manuscript to the Social Responsibility Journal.

Yours sincerely,
David Crowther
Social Responsibility Journal Editorial Office

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**Juniarti . <yunie@petra.ac.id>**

# Social Responsibility Journal - Decision on Manuscript ID SRJ-03-2019-0114.R3

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Tue, May 5, 2020 at 3:01 AM
Reply-To: hfauzi@icseard.uns.ac.id
To: yunie@petra.ac.id

04-May-2020

Dear Dr. -:Junjiarti

Manuscript ID SRJ-03-2019-0114.R3 entitled "Mandatory CSR: Does it provide long-term benefits to shareholders? The revised: Does Mandatory CSR provide long-term benefits to shareholders?" which you submitted to the Social Responsibility Journal, has been reviewed. The comments of the reviewer(s) are included at the bottom of this letter.

The reviewer(s) have recommended revisions to the submitted manuscript, before it can be considered for publication. Therefore, I invite you to respond to the reviewer(s)' comments and revise your manuscript.

To revise your manuscript, log into https://mc.manuscriptcentral.com/srj and enter your Author Centre, where you will find your manuscript title listed under "Manuscripts with Decisions." Under "Actions," click on "Create a Revision." Your manuscript number has been appended to denote a revision.

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Once the revised manuscript is prepared, you can upload it and submit it through your Author Centre. The deadline for uploading a revised manuscript is 03-Aug-2020 from receiving this email. If it is not possible for you to resubmit your revision within this timeframe, we may have to consider your paper as a new submission.

When submitting your revised manuscript, you will be able to respond to the comments made by the reviewer(s) in the space provided. You can use this space to document any changes you make to the original manuscript. In order to expedite the processing of the revised manuscript, please be as specific as possible in your response to the reviewer(s).

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Once again, thank you for submitting your manuscript to the Social Responsibility Journal and I look forward to receiving your revision.

Yours sincerely,
Prof. Hasan Fauzi
Editor, Social Responsibility Journal
hfauzi@icseard.uns.ac.id, hfz1069@gmail.com

Reviewer(s)' Comments to Author:
Reviewer: 1

Recommendation: Minor Revision

Comments:
Manuscript much improved - see comments to improve it.

Additional Questions:
1. Originality:  Does it add to the subject area/body of knowledge in any way?: Yes - especially in Indonesia

2. Analytical rigour:  Does the article demonstrate soundness in the way it has been researched and/or argued?: It is OK

3. Clarity and readability:  Is attention paid to clarity of expression and readability? Points to note: sentence structure, jargon, acronyms.: Still needs work - see attached file.

4. Research applications:  Does the article suggest areas for further research? Or practical implications - are implications for practitioners clearly drawn out?: Yes

5. Internationality:  Will the article be of interest to an international audience?: Yes

---

**2 attachments**

**Mandatory-CSR-3.pdf**
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UNIVERSITAS KRISTEN PETRA

Juniarti . <yunie@petra.ac.id>

# Social Responsibility Journal - SRJ-03-2019-0114.R4

1 message

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Wed, May 20, 2020 at 6:24 PM
Reply-To: davideacrowther@gmail.com
To: yunie@petra.ac.id

20-May-2020

Dear Dr. -:

Your revised manuscript entitled "Mandatory CSR: Does it provide long-term benefits to shareholders?
The revised: Does Mandatory CSR provide long-term benefits to shareholders?" has been successfully submitted online and is presently being given full consideration for publication in the Social Responsibility Journal.

Your manuscript ID is SRJ-03-2019-0114.R4.

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Social Responsibility J

# Mandatory CSR: Does it provide long-term benefits to shareholders?
# The revised: Does Mandatory CSR provide long-term benefits to shareholders?


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|---|---|
| Journal: | *Social Responsibility Journal* |
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| | |

# Does Mandatory CSR provide long-term benefits to shareholders?

**Abstract**

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

Research Design:
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 since 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 research uses a single measurement of shareholder value based only on accounting measurement. Further, due to limitations in accessing internal company data, this research 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
**Classification**—research paper

## I. 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 BP, have voluntarily declared their commitment to doing good business (McBarnett, 2009). They are willing to sacrifice business opportunities to protect environmental sustainability. The commitment is very subtle since 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 (McBarnett, 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 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, 2012). Prior evidence explains the vulnerability of voluntary CSR since 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 like 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 CSR's 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. 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 overperform in the short-term but later declare bankruptcy (McBarnett 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 CSR's benefits will be significant for these shareholders. Secondly, 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, which shows sustainable earnings or recurring profits (Penman and Zhang, 2002; Francis *et al.*, 2004). The higher earnings persistence 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, earnings before interest, taxes, depreciation, and amortization, that only measure success in short-term periods (Gunawan, 2007; Fauzi, 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 II presents the literature review and hypothesis development. Section III shows the research methods. Section IV describes the analysis and discussion, including the empirical findings, and Section V concludes and examines the study's limitations.

## II. 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 government's proactive actions to mandate CSR are in line with the government's primary role to facilitate implementation guidelines (Matten and Moon, 2004; Fox *et al.*, 2002). 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, 2013).

### *2.2. Sustainable Shareholder~~s~~ Value*

The Dow Jones Sustainability Index defines sustainability as an approach that enables businesses to generate long-term shareholder value by utilizing 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 earnings persistence 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 Keim, 2001) used market value added (MVA), 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 (CAR) as the proxy of shareholder value. This study uses earnings persistence as the proxy of sustainable shareholder value because the higher the earnings persistence exhibited, the higher the sustainability of earnings. Companies' ability to generate earnings persistence shows their abilities to provide long-term benefits to their shareholders; they create sustainable shareholder value because earnings persistence reveals profit continuity or recurrent profits (Steurer *et al.*, 2005; Penman and Zhang, 2002; Francis, 2004).

Earnings persistence 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 high earnings persistence. To show that earnings persistence represents the viability of earnings, this study applies further testing to earnings persistence. The first additional test is the reliability of the coefficient of earnings persistence, and the second is the applied stationarity test of earnings persistence.

### *2.3. Stakeholder Theory*

Stakeholder theory states~~d~~ 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 comprised of 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 employing 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 shareholders' theory, expenditures for CSR activities violate management's 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).

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Mandatory CSR also aims to secure the long-term interests of shareholders (McBarnett, 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 (Reinhart *et al.*, 2008;

Lawrence and Weber, 2008; Larson *et al.*, 2000; Achda, 2006; Hart and Meilsten, 2003). Earnings persistence is as the proxy of sustainable earnings or recurring profits (Penman and Zhang, 2002; Francis *et al.*, 2004). Higher earnings persistence 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.

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The above discussions lead to the following hypothesis:

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

## III. 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: 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 (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 Grave, 1997; Mc-Guire *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). Book-to-market equity (BME) reflects the level of risk of earnings perceptions (Fama and French, 1995; Penman and Zhang, 2002). Low BME shows high earnings persistence 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 earnings persistence, when compared to low-profile companies (Newson and Deegan, 2002; Konar and Cohen, 2001).

The research model of this study is as follow:

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

*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 earnings persistence is regressing adjusted earnings per share (EPS) for the year with lag adjusted EPS using the first autocorrelation model (AR1) as follows:

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

where:

$X_{j,t}$ = adjusted earnings per share year $_t$

$X_{j,t-1}$ = adjusted earnings per share year $_{t-1}$

Before using $\emptyset_{1,j}$ estimation, which captures the persistence of earnings, the reliability test is performed by examining the significance of the estimated $\emptyset_{1,j}$. If the significance value of *t* coefficient of earnings persistence 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 ensuring 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 (DF) test, which is calculated as follows:

$$\Delta Y_t = \delta Y_{t-1} + \upsilon_t \quad (3)$$

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

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

[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, 1999)

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 contains a unit root. The critical value to accept or reject H0 using $\tau$ statistic is set at 0.1, 0.05 or 0.1; if the value $\tau$ produced is smaller than $\tau$ at the critical level, then H0 cannot be rejected and the data contains 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 CSR index, 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).

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- **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 dan 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 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 (IDX). Samples are selected according to the following criteria: (1) companies available in two concurrent years (2012 and 2013); (2) companies in the financial sector are excluded[2]; (3) companies have implemented CSR for a minimum of five consecutive years since 2007; (4) EPS data is available for at least seven years before 2012 and 2013.

## IV. 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

[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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(hereafter referred to as Group A). However, after proofing the reliability and stationarity of earnings persistence, 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 INDUSTRIAL SECTOR SAMPLE

| 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 earnings persistence 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.

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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 |

| ~~No~~ | ~~Variable~~ | ~~Mean~~ | ~~Median~~ | ~~Max~~ | ~~Min~~ | ~~Std Dev~~ |
|---|---|---|---|---|---|---|
| 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% | |

*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 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 earnings persistence.

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

**Commented [JM10]:** add explanation

TABLE 4 HYPOTHESIS TESTING FOR SAMPLE B

| Variable | Model 1-a | | | Model 1-b | | |
|---|---|---|---|---|---|---|
| | *Coefficient* | *t-stat* | *Sig* | *Coefficient* | *t-stat* | *Sig* |
| CSRI | 0.457 | 2.668 | *** | -0.051 | -0.221 | - |
| PROF | - | - | - | -0.287 | -3.105 | *** |
| PROF*CSR | - | - | - | 0.740 | 2.158 | ** |
| 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 | *** |
| FIRM | - | - | - | 0.033 | 1.492 | - |
| BME | - | - | - | -0.014 | -1.455 | - |
| COM | - | - | - | -0.040 | -0.406 | - |
| C | 0.632 | 3.938 | *** | 0.708 | 3.493 | *** |
| R-squared | 0.063 | - | - | 0.335 | - | - |
| Adjusted R-squared | 0.055 | - | - | 0.257 | - | - |
| F-stat | - | 7.118 | - | - | 4.341 | - |
| Prob (F-statistic) | - | 0.009 | - | - | 0.000 | - |
| R-squared | 0.063 | - | - | 0.335 | - | - |

As a comparison, the hypothesis is also tested to all observations (Group A) without considering reliability and stationarity of earnings persistence, 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 earnings persistence 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 earnings persistence. 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 earnings persistence compared to the models generated from testing throughout the observation.

TABLE 5 HYPOTHESIS TESTING FOR SAMPLE A

| ~~Variable~~ | ~~Model 1-a~~ | | | ~~Model 1-b~~ | | |
|---|---|---|---|---|---|---|
| | ***~~Coefficient~~*** | ***~~t-stat~~*** | ***~~Sig~~*** | ***~~Coefficient~~*** | ***~~t-stat~~*** | ***~~Sig~~*** |
| ~~CSRI~~ | ~~0.776~~ | ~~2.888~~ | ~~***~~ | ~~0.545~~ | ~~1.995~~ | ~~**~~ |
| ~~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~~ | ~~***~~ |
| ~~LEV~~ | | | | ~~-0.022~~ | ~~-0.492~~ | |
| ~~FIRM~~ | - | - | - | ~~0,043~~ | ~~1.189~~ | - |
| ~~BME~~ | - | - | - | ~~-0.032~~ | ~~-1.899~~ | ~~*~~ |
| ~~COM~~ | - | - | - | ~~0.142~~ | ~~0.949~~ | - |
| ~~C~~ | - | - | - | ~~-0.050~~ | ~~-0.184~~ | - |
| ~~R-squared~~ | - | - | - | ~~0,011~~ | ~~0,280~~ | - |
| ~~Adjusted R-squared~~ | ~~0.264~~ | ~~3.938~~ | ~~***~~ | ~~0.121~~ | ~~0.387~~ | - |
| ~~F-stat~~ | - | - | - | - | - | - |
| ~~Prob (F-statistic)~~ | ~~0.038~~ | - | - | ~~0.193~~ | - | - |
| ~~R-squared~~ | ~~0.033~~ | - | - | ~~0.149~~ | - | - |

*4.2. Test of Partial Aspects of CSR*

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 create value for the shareholders. Scores for every aspect of CSR, which consists of economic aspects (CSREK), environmental aspects (CSRLN) and social aspects (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 earnings persistence (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 the results of total CSR testing (total CSR score), which confirms the association of CSR and earnings persistence. Therefore, all aspects of CSR contribute to sustainable shareholder value, but they are unable to produce value individually.

TABLE 6 PARTIAL TEST OF THE CSR ASSOCIATION MODEL

**Commented [JM11]:** explain the calculation of CSR aspects

**Commented [JM12]:** this testing is as an additional testing, therefore only applied in the high-profile companies, where the CSR implementation is significant in the group.

| ~~Variable~~ | ~~CSR Partial~~ | | | ~~CSR all~~ | | |
|---|---|---|---|---|---|---|
| | ~~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~~ | ~~**~~ |
| ~~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~~ | ~~*~~ |
| ~~LEV~~ | ~~-0.150~~ | ~~-1.787~~ | - | ~~-0.155~~ | ~~-1.899~~ | ~~*~~ |
| ~~FIRM~~ | ~~0.006~~ | ~~0.259~~ | - | ~~0.003~~ | ~~0.129~~ | - |
| ~~BME~~ | - | - | - | ~~-0.055~~ | ~~-1.120~~ | - |
| ~~COM~~ | ~~-0.362~~ | ~~-1.802~~ | - | ~~-0.349~~ | ~~-1.833~~ | ~~*~~ |
| ~~C~~ | ~~0.721~~ | ~~2.063~~ | ~~**~~ | ~~0.795~~ | ~~2.510~~ | ~~**~~ |
| ~~R-squared~~ | ~~0.357~~ | - | - | ~~0.352~~ | - | - |
| ~~Adjusted R-squared~~ | ~~0.171~~ | - | - | ~~0.206~~ | - | - |
| ~~F-stat~~ | - | ~~1.922~~ | - | - | ~~2.415~~ | - |

### *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 earnings persistence. 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.

**Commented [JM13]:** Sample Group B is used in the robustness test

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 CSR's role in achieving sustainable shareholder value. The results support an association between CSR and sustainable shareholder value, as shown in Table 8.

TABLE 7 - THE FIRST 2 AND 3 YEARS OF CSR ~~I~~IMPLEMENTATION

| ~~Variable~~ | ~~The first two years of implementation~~ | | | ~~The first three years of implementation~~ | | |
|---|---|---|---|---|---|---|
| | ~~Coefficient~~ | ~~t-stat~~ | ~~Sig~~ | ~~Coefficient~~ | ~~t-stat~~ | ~~Sig~~ |
| ~~CSRI~~ | ~~1.373~~ | ~~0.361~~ | - | ~~1.473~~ | ~~0.602~~ | - |

| Variable | The first two years of implementation | | | The first three years of implementation | | |
|---|---|---|---|---|---|---|
| | *Coefficient* | *t-stat* | *Sig* | *Coefficient* | *t-stat* | *Sig* |
| PROF | 1.498 | 1.863 | ** | 0.897 | 1.671 | * |
| 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-squared | 0.047 | - | - | 0.031 | - | - |
| Adjusted R-squared | -0.005 | - | - | -0.003 | - | - |
| F-statistic | - | 0.898 | - | - | 0.921 | - |

Table 8 After 3 Years of CSR implementation

| Variable | Model 1-b | | |
|---|---|---|---|
| | Coefficient | t-stat | Sig |
| CSRI | 0.50162 | 1.79926 | * |
| PROF | 0.01140 | 0.27732 | - |
| VOP | -0.24852 | -2.78185 | *** |
| VOK | -0.00015 | -0.67325 | - |
| OPEC | -0.00643 | -0.22893 | - |
| NEG | -0.47014 | -3.59918 | *** |
| LEV | 0.00765 | 0.19473 | - |
| FIRM | 0.00134 | 0.03374 | - |
| COM | 0.15581 | 1.17438 | - |
| C | 0.43678 | 1.04225 | - |
| R-squared | 0.10729 | - | - |
| Adjusted R-squared | 0,08103 | - | - |
| F-statistic | - | 4,08607 | - |
| Prob (F-statistic) | - | 0,00006 | - |

*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 earnings persistence. 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 regards 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 stakeholders 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 shareholders 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.

## V. Conclusion and Limitation

This study shows that mandatory CSR is positively and significantly associated with sustainable shareholder value proxied by earnings persistence 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 benefit was measured after a period of CSR implementation that allowed firms 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 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.

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UNIVERSITAS KRISTEN PETRA

**Juniarti . <yunie@petra.ac.id>**

# Social Responsibility Journal

9 messages

**Social Responsibility Journal** <onbehalfof@manuscriptcentral.com> Wed, Jun 24, 2020 at 10:51 AM
Reply-To: phalguni.emerald@cenveo.com
To: yunie@petra.ac.id

24-Jun-2020

SRJ-03-2019-0114.R4 - Mandatory CSR: Does it provide long-term benefits to shareholders? The revised: Does Mandatory CSR provide long-term benefits to shareholders?

Dear Dr. - Juniarti,

Congratulations on having your paper, "Mandatory CSR: Does it provide long-term benefits to shareholders? The revised: Does Mandatory CSR provide long-term benefits to shareholders?" accepted for publication in "Social Responsibility Journal".

During our editorial checks on your above submission it was noted that you have not provided "Table 1, 4, 5, 6, 7 and 8" in your manuscript, although you have provided us with its in-text citation. Could you please provide the same?

Kindly let me know should you have any questions.

Yours sincerely,
Phalguni Gadley
Social Responsibility Journal

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**Juniarti .** <yunie@petra.ac.id> Wed, Jun 24, 2020 at 7:23 PM
To: phalguni.emerald@cenveo.com

Dear Dr. Phalguni Gadley.

Thank you for accepting my paper, regarding Tables 1,3,4 and 8, I think these tables are already in my final paper version, . table 1 on page 11, table 4 on page 13, table 5 pages 13 and 14, table 6 on pages 14 and 15, table 7 on pages 5 and 16, Table 8 on page 16.

I also want to clarify that the title of my paper is revised to be: "Does Mandatory CSR provide long-term benefits to shareholders?"
Originally, my paper entitled: Mandatory CSR: Does it provide long-term benefits to shareholders? (this is the old title)
Thank you so much for your kind cooperation.

Yours sincerely,

[Quoted text hidden]

--
**Dr. Juniarti, M.Si., Ak., CA**
Department of Accountancy
Petra Christian University
Jl.Siwalankerto 121-131
Surabaya 60236
INDONESIA

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**Emerald, Phalguni** <Phalguni.Emerald@cenveo.com> Thu, Jun 25, 2020 at 4:10 PM
To: "Juniarti ." <yunie@petra.ac.id>

Dear Dr. – Juniarti,

Many thanks for your response.

I would like to inform you that “Table 2 and 3” are visible on page 11, however, no other table’s content or table is visible in your manuscript. For your reference, PFA screenshot of Table 7 and 8 below from Page 13:

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.

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 CSR's role in achieving sustainable shareholder value. The results support an association between CSR and sustainable shareholder value, as shown in Table 8.

TABLE 7 THE FIRST 2 AND 3 YEARS OF CSR IMPLEMENTATION

TABLE 8 AFTER 3 YEARS OF CSR IMPLEMENTATION

*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

Similarly Table 1, 4, 5, 6 are invisible too. Kindly let me know your thought about it.

With regards to change in title of your paper, you will need to resubmit the copyright form with the revised title. Could you please confirm if this is OK? If yes, then I shall rescind your previous copyright form with old title and then you can re-submit the same with revised title.

Kindly let me know your thoughts.

**Regards,**

**Phalguni Gadley**

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**Juniarti .** <yunie@petra.ac.id> Thu, Jun 25, 2020 at 6:03 PM
To: "Emerald, Phalguni" <Phalguni.Emerald@cenveo.com>

Dear Dr. Phalguni Gadley,

Thank you for your quick response, please find the enclosed "List of tables of my paper.
I also agree to resubmit the copyright form with revised title.

Yours sincerely,

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**Emerald, Phalguni** <Phalguni.Emerald@cenveo.com> Fri, Jun 26, 2020 at 2:12 PM
To: "Juniarti ." <yunie@petra.ac.id>

Dear Dr. – Juniarti,

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**Juniarti .** <yunie@petra.ac.id> Fri, Jun 26, 2020 at 6:30 PM

To: "Emerald, Phalguni" <Phalguni.Emerald@cenveo.com>

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**Emerald, Phalguni** <Phalguni.Emerald@cenveo.com> Fri, Jun 26, 2020 at 6:51 PM
To: "Juniarti ." <yunie@petra.ac.id>

Dear Dr. – Juniarti,

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**Juniarti .** <yunie@petra.ac.id> Fri, Jun 26, 2020 at 7:31 PM
To: "Emerald, Phalguni" <Phalguni.Emerald@cenveo.com>

Dear Dr. Phalguni Gadley,

Thank you for your response.

Please find attached  "Completed CTA Form"

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**Emerald, Phalguni** <Phalguni.Emerald@cenveo.com> Mon, Jun 29, 2020 at 1:27 PM
To: "Juniarti ." <yunie@petra.ac.id>

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