

Mediating role of Stakeholders Engagement on relation between Corporate Social Responsibility and Financial Performance



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Abstract

Purpose: Sustainability is multidimensional concept which is gaining interest recently. Various studies have performed to examine the relationship between the two still its relation with financial performance is inconclusive. The study aims to analyze the relationship between corporate social responsibility and financial performance of small and medium enterprises while focusing on stakeholder engagement as a mediator variable.

Design/Approach: Mediation analysis was employed to examine the mediating role of stakeholder engagement. For this study, primary data was collected from 196 Indian SMEs through structured questionnaire.

Findings: The results reveal that CSR has a significant positive impact on both stakeholder engagement and financial performance. Moreover, the stakeholder engagement has a strong impact on financial performance, which proves its utmost importance to organizational success. The finding highlights the importance of transparency and responsible practices in enhancing stakeholder trust, participation and involvement. It aligns with the notion that CSR activities act as a communication mechanism that strengthens firm-stakeholder relationships.

Originality/Value: The study contributes to our knowledge about leading of CSR practices to improve financial performance of SMEs in India. This paper is in a class by itself to authorize the association of CSR and financial performance of Indian SMEs taking stakeholder engagement as mediating factor.

Keywords: Corporate social responsibility (CSR), financial performance, stakeholder engagement, small and medium enterprises (SMEs), firm performance

1. Introduction

The increasing academic and policy focus on the critical role of foreign direct investment (FDI) in economic development of emerging and developing countries has been offset by an equally important concern about the tendency of multinational corporations to take advantage of the relatively loose social and environmental regulations system prevalent within these settings. In this respect, CSR has been widely embraced by corporate organizations as a strategic tool of alleviation and balancing the negative effects of their operational behaviors which are perceived to be deleterious (Ansong, 2017).

In the Indian context in particular, CSR has come to provide the very top of the corporate, as well as the popular policy agenda, driven by a combination of convergent forces: the growing pressure of economic globalization; the concerted liberalization of the national economy; the realization of a dynamic and growing complex capital market, with its distinctive performance patterns. As a result, business entities have been given the institutional and regulatory space to consolidate and enhance their activities to become inevitable agents in economic, social and cultural change in the country (Long et al., 2020). In addition to their primary role

of creating and supplying goods and services, corporations are an important source of jobs and livelihood to large portions of the population, they play significant roles in contributing to public revenues by obeying taxes efficiently - thereby promoting the functional ability of governmental institutions - and have significant impacts on the physical environment as well as on the social structure of the communities in which they are based (Kapoor & Sandhu, 2010).

European Commission defined CSR as role played by enterprises in terms of their effects on society (Bohlin & Wiebe, 2016). World Business Council of Sustainable Development defines it as an obligation by a business to provide sustainable economic development collaborating with the employees, their family, the local community and society to enhance quality of life in a manner that is not only conducive to business but also to development (Gorjian Khanzad & Gooyabadi, 2022). As long as the predominant discourse in society is still dominated by a preoccupation with the negative and far-reaching impacts of corporate action, business organizations themselves must face an equally acute internal debate, that is, whether the ethical and fair treatment of all constituency of stakeholders, as theorized in the framework of stakeholder, has a

quantifiable and consequential impact on the performance of organizations (Arevalo & Aravind, 2011). Based on the stakeholder theory, this discussion obliges companies to find a way out of the intrinsic tension between maximization of shareholder economic interests and the larger ethical, social, and environmental expectations imposed on companies by varied groups of stakeholders.

Despite the significant and widely-reported cost impact that is inherent to the efforts to achieve a fit between the two demands it is possible to note that a large percentage of modern senior corporate leaders have nevertheless dedicated a large percentage of organizational resources to the institutionalization of CSR practices (Barauskaite & Streimikiene, 2020). This form of strategic devotion indicates a general managerial belief that the aggregate gains that accrue as a result of CSR efforts, including, but not limited to, increased employee morale and organizational commitment, the development of enduring customer loyalty and the general build-up of social capital, are of a substantive and demonstrable benefit that easily surpasses the monetary outlays involved in the adoption of socially responsible behavior (Nwagbara et al., 2024).

However, this stance is the subject of much scholarly debate. An impressive amount of scholarly literature develops the opposing argument that companies that invest in CSRs activities are obliged to experience a relative competitive drawback as compared to their less socially responsible peers. This view is based on the argument that these investments bear insignificant -or no- economic payoffs, thus questioning the economic soundness and strategic sense of CSR participation as a corporate agenda (Awaysheh et al., 2020). The association between corporate social responsibility and organizational financial performance has been the focus of an extremely long and tedious empirical research; however, the nature of the association has not been conclusive as a number of scholarly studies have been conducted on the subject (Soana, 2011). The extant literature shows a remarkable level of empirical heterogeneity: whilst a substantial amount of research evidence shows a positive relationship between CSR engagement and financial performance, a considerable amount of research evidence shows a negative relationship between the two constructs (Sekhon & Kathuria, 2020); (Maqbool & Zameer, 2018); (Kaur, 2018). Moreover, the directionality of any perceived relationship is itself controversial - some studies indicate a direct causal relationship, others discover indirect relationships only, or no statistically significant relationship at all. Another group of studies provides purely neutral findings, not proving or disproving the presence of a significant relationship between CSR activity and financial performance of

the firms (Nelling & Webb, 2009); (Mallin et al., 2014); (Mansaray et al., 2017).

In this atmosphere of empirical ambiguity, stakeholder involvement has been more recently a recognized element in the literature regarding possible material moderating or mediating variable that can influence the character and extent of the effect of CSR on financial performance. In modern CSR rhetoric, the effectiveness and eventual effectiveness of CSR practices are often based on the quality and depth of stakeholder engagement practices (Agyapong et. Al, 2023). These engagement mechanisms are an essential institutional platform, bringing together the representatives of the corporate sector, non-governmental organizations, regulatory authorities and the wider public constituency to jointly identify, discuss and respond to those aspects of CSR that are most relevant to the well-being of society whilst also being consistent with the needs of business continuity and organizational sustainability.

Also, meaningful stakeholder engagement has another, equally important organizational role: it constitutes a key channel through which firms can build and develop legitimacy - not just in professional business and development practitioner circles but also in the perception of society as a whole. Through premeditated interaction, responsibility and responsiveness, corporations can be better placed to match their CSR actions with those of their stakeholders and improve their social license to operate and strengthen the long-term viability of their own CSR promise. Thus, the purpose of the study is to examine the relationship between corporate social responsibility and financial performance by focusing on stakeholder engagement. Research area is Indian SMEs where there is no obligation to adopt CSR and stakeholders are the key factors to run business with quality products and services. Review of literature and linking between the three variables has been discussed in part 2. Part 3 presented research methodology including conceptual framework of the study. Part 4 discussed the results of the analysis and part 5 explains the managerial implications of the research. Part 6 described the conclusion and limitation with future research directions are explained in part 7.

2. Review of Literature

This section has been divided into four parts. First part is discussing about the historical evolution of CSR, second part is about the association of CSR and financial performance, third part is about the association of CSR and stakeholder engagement and fourth part is related to the association of stakeholder engagement and financial performance.

2.1 Historical evolution of CSR

When the topic of formal CSR was first introduced in the 1950s, there was little academic or practical interest in the possible organizational pay-offs that may accrue to those companies that are actively involved in CSR activity. The intellectual movement of this formative time was directed almost solely at the definition of the moral and social duties of the business to the society, especially the normative imperative of corporations to follow philanthropic activities in the interest of the larger common good. This initial conceptualization led to the landmark and warning intervention by Theodore Levitt in which he cautioned the corporate world on what he saw as the ultimate danger of unregulated CSR involvement into the very nature and structural soundness of business enterprise.

Despite Levitt's far-sighted warnings, the concept went through a significant theoretical and conceptual evolution during the 1960s, driven mainly by the works of scholars and researchers who have presented a convincing and empirically-based business case in favor of CSR. Most significant of these theoretical developments were the instrumental theories of CSR whose theorists argued that the long-term maintenance and institutionalization of the CSR practice is essentially dependent on the extent to which the relationship between the business and the society will give rise to concrete economic gains to the corporate organizations - based on the normative claim that wealth creation is the core social responsibility of the firm (Carroll, 1991); (Ansong, 2017).

Stakeholder engagement is one of the most important mechanisms outlined in this instrumental framework in which CSR activities can have a meaningful and quantifiable impact on the shareholder wealth creation goal. Some types of CSR action can be suitably interpreted as intentional and tactical manifestations of endeavors to develop trusting and mutually collaborative links between companies and their appropriate constituencies of stakeholders - links, in their turn, which should be positively correlated with improved corporate fiscal results (Garriga & Mele, 2017). The economic aspects of CSR deserve particular and close academic consideration in the particular case of developing economies. Empirical evidence indicates that, although a significant percentage of firms in the context of developing countries is still struggling to reconcile the bottom-line effects of their CSR performance, relatively few such organizations actually interact with their stakeholders in practice in a meaningful and substantive manner (Wood & Jones, 1998); (Ansong, 2017).

2.2 The association of CSR and financial performance

Prior research indicates that most of the articles indicates positive relationship between CSR and Financial performance, however few articles show

the negative relationship between the two (Barauskaite & Streimikiene, 2020). Awaysheh et al. (2020) reexamined the linking between CSR and financial performance of Industries that are identified as best and worst in class. Empirical evidence suggested no relation between CSR and operating performance, however best in class industry grows with higher operating performance and market value as compared to their peers. Partalidou et al. (2020) employed Thomson Reuter's data stream to measure different aspects of CSR and various techniques to identify the association of CSR and Financial Performance. Result shows that higher level of environmental performance, implementing quality principals and transparency positively affect financial performance. L. Das & Bhunia (2016) observed various literatures to find out the relations between CSR and Financial Performance in India and abroad in the review paper. The empirical evidence suggested exhibited positive, negative and mixed results in different studies. Based on certain variables and scope of the study revealed results varied.

The majority of studies report as positive association between CSR and financial performance. Javaid & Al-Malkawi (2018) investigated a significant affirmative association of CSR and Financial Performance using Zakat as a measure of CSR. Ansong (2017) used PLS estimation technique to examine the relation of CSR and Financial performance of SMEs in developing countries by taking stakeholder's engagement as a mediating variable (Muchiri et.al, 2022). Beck et al. (2018) employed Global Reporting Initiative (GRI) framework for rating of companies based on their participation in CSR and sustainability rating as measure. Choi et al. (2010) conducted study on 1222 Korean firms to identify the association between CSR and financial performance. Jahmane & Gaies (2020) scrutinized the effect of CSR on the CFP interacting with financial instability at macro level using generalized method of moments. It took 15 years of analysis on CAC 40 companies. Studies consistently highlight a positive spillover effect between corporate financial performance and the corporate social responsibility.

Kapoor & Sandhu (2010) employed content analysis for CSR and Prowess database for financial performance to evaluate the influence of CSR on growth of business and financial performance. Results shows strong affirmative effect of CSR on firm's profitability and insignificant positive impact on corporate growth. Lin et al. (2009) conducted a study to identify the relation of CSR and financial performance in 1000 Taiwan based companies taking Research & Development Expenditure as an intermediate variable. Research demonstrates affirmative association of CSR and financial performance. Malik & Kanwal (2018) framed a case study on listed pharmaceutical firms in Pakistan to

study the link between CSR and financial performance by using content analysis with brand equity as a mediating factor. The results indicate that brand equity act as mediator between CSR disclosure and financial performance. Mallin et al. (2014) used comprehensive CSR index of Islamic Banks from 13 countries to evaluate the effect of CSR on financial performance with Ordinary Least square regression. Evidence suggested positive relationship between CSR and financial performance. Oyewumi et al. (2018) employed Wallace and Hussain estimator of component variance to identify the consequences of CSR disclosure on financial performance on the panel data set of Banks in Nigeria. The results indicate that financial performance would be unaffected if there is no disclosure of CSR investment.

Nelling & Webb (2009) conducted OLS regression model and fixed effects Granger Causality Approach which shows that even though based on traditional techniques the relation between CSR and financial performance proven positive, the results from time series fixed effect approach presents weak relation between the two. Platonova et al. (2018) conducted the study in the Gulf Cooperation Council Region to examine the connection of CSR and financial performance for Islamic Banks. Empirical evidence suggest that there is positive relationship between the two and CSR activities carried out in a year would have positive impact on financial performance of future years. Mansaray et al. (2017) conducted an empirical study to analyze the impact of CSR on financial performance in short run as well as long run. Results reveals that CSR affects negatively on financial performance in short run, however in long run the relation is positive but not significant. Pelozo & Papania (2008) examined the relationship between the two suggesting that the association of CSR and financial performance by presenting a framework. This study represents that stakeholder have ability to reward or punish the firms based on their evaluation of social performances. Santos (2011) analyzed the CSR strategies, practices, motivations and obstacles in SMEs. Result shows that CSR helps to gain excessive profile towards local community, better social climate and prospective benefits to the business at SMEs. W. Lin et al. (2018) used panel data approach to identify the impact of corporate political activities on association of CSR and financial performance. Outcome of the study indicates that political activities negatively affect social and financial performance. Also, there is no significant impact of CSR on financial performance.

H1: CSR has a significant positive effect on financial performance.

2.3 The association of CSR and stakeholder engagement

As the business case of CSR has become the prevailing paradigm of corporate discourse in the modern business environment, the stakeholders have increasingly become critical of the CSR practices and performance of firms. This increased attention has taken the form of an explosive increase in investor interest in both the successful implementation of CSR activities and the clear reporting of the relevant information on these activities (Koh et al., 2023). Exploring the relationship between CSR performance and the volume and quality of disclosure among the firms with their headquarters in the United States, relying on standalone CSR reports as a single unit of analysis, the authors determine that the stakeholder constituencies, including investors, customers, creditors, regulatory bodies, environmentalists, and media organizations, have significant pressure on firms to show strong CSR performance. Although these stakeholders also urge firms to high-quality disclosure practices, the results of the research indicate an important gap: the text of CSR reports is likely to give too little attention to material short-term concerns, thus undermining the quality and substantive depth of corporate social reporting. Scholarly interest in the impact of stakeholder engagement on CSR policy development and its organizational application has been intense. In their elaboration of a new conceptualization of stakeholder engagement management in the CSR framework, taking into consideration the insights of the pharmaceutical companies operating on the territory of the United Kingdom and Germany, O’Riordan & Fairbrass (2014) find that stakeholder engagement defines the entire scope of activities that the firm chooses to engage stakeholders in a constructive and affirmative way. Communication, identification, consultation, and reciprocal exchange were the key processes according to the framework through which firms form and maintain constructive stakeholder relationships and corporate communication is presented as an irreplaceable and non-negotiable aspect of responsible business practices.

In line with this view, Lorne & Dilling (2012) argue that the role of CSR reports goes way beyond the actual collection of information, and its dissemination to other stakeholders; instead, the role of CSR reports is a strategic tool that helps establish a stakeholder-friendly interaction, and to integrate the perspectives of various stakeholders into the corporate decision-making process. Proper and clear communication of CSR reports, according to them, will provoke interest of the stakeholders and will make them inquire more about the social practices and commitments of the firm.

Despite the recognized significance of stakeholder engagement, the efficiency of processes, in its turn, hinges upon the ability of the organization to maneuver and bargain around a multi-layered

complex of interconnected issues. These encompass, but are not limited to: the institutional and structural intricacies of initiation and design of communication systems; the rationality and rigor with which the appropriate performance metrics and assessment indicators are identified, framed and operationalized; the effective generation and spread of coherent and shared organizational vision amidst heterogeneous stakeholder populations; the institutional inertia and inefficiencies inherent in administrative bureaucracies; and the inherent tensions. Each of these factors alone places a significant burden on the stakeholder engagement process; taken together and combined, they present a multiplicative and significant source of transaction costs relating to the process of coordinating incentives between structurally and normatively heterogeneous stakeholder constituencies - making the effective stakeholder engagement a challenge to organizational and governance as much as a communicative one.

H2: CSR has a significant positive effect on stakeholder engagement.

2.4 The association of stakeholder engagement and financial performance

The tangible returns that can be generated by good stakeholder engagement are multidimensional in nature, originating mainly through the improvement of the shareholder value via strategies that work in a similar way as insurance-like coverage of reputational and operational risk. Other advantages include better organizational risk management, increased attractiveness in the market among customer constituencies, increased corporate transparency, and easier access to financial markets and capital resources. Together, or in substantial combination, these mutually reinforcing factors have the provable capability to have a materially positive impact on the overall financial performance of the firm (Jo & Na, 2012).

Assessed in the analytical perspective of the resource-based theory, successful stakeholder engagement can be theorized as a strategically rare, unique, and inimitable organizational resource one that not only is a driver of healthy financial performance but also helps to sustain a competitive edge in the long run (Ansong, 2017). This continued performance advantage comes through the relative inertia that competing companies are prone to face in emulating the richness, authenticity, and institutional entrenchment of this sort of stakeholder relationships (J. Choi & Wang, 2009). Companies that are able to build relationships with their stakeholders that go beyond the normal market dealings in effect gain a significant lasting competitive edge over their peers (Mishra & Suar, 2010). Moreover, the efficient management of the important stakeholder relations also serves as a powerful value driver as it both leverages

organizational performance and systematically minimizes the costs imposed by stakeholders. As an example, employee turnover is directly lowered, which translates into the cutting of the costs of recruitment and training; committed and loyal supplier relations help to reduce the costs of quality certification and compliance; and supportive development of relations with the community help to reduce the legal liabilities and overheads on PR (Mishra & Suar, 2010).

The above theoretical propositions are supported by an increasing amount of empirical evidence. Investigations that have been carried out on the stakeholder engagement have over the years reported that a firm which is typified by high and positive stakeholder relations is likely to exhibit equally better financial performance results (Barney & Hansen, 1994). Interestingly, in their empirical study, Scholtens & Zhou (2008) operationalized the stakeholder engagement by using a composite index that included: community involvement, quality of corporate governance, employee relations, environmental behavior, workforce diversity, human rights policies, and product qualities. They investigated these different but related, dimensions of stakeholder engagement to be connected to financial performance in a more complicated and nuanced way - highlighting the multifaceted and context specific nature of the CSR-financial performance correlation and the need of future scholarly research to be more granular and disaggregated in its methods of analysis.

H3: Stakeholder engagement has a significant positive effect on financial performance.

Wood & Jones (1998) provides a theoretically substantive explanation of the intervening role of stakeholder engagement in CSR firm performance nexus, and proceeds to develop the suggestion that some types of CSR projects can be better conceived as strategic and intentional expressions of organizational attempts to form trusting and cooperative relations between the firm and its various stakeholder constituencies (Ansong, 2017). These initiatives, he argues, should be positively linked with the improvement of corporate financial performance, as far as those companies who involve their stakeholders on the solid ground of mutual trust and mutual cooperation are in a good place to gain sustainable competitive advantage over other companies who do not. To a large degree, this competitive advantage can be attributed to the corresponding decrease in agency costs, transaction costs and the costs of team production arrangements. To be more precise, the main mechanisms to convert the trust-based stakeholder relationships into quantifiable and sustainable organizational performance benefits, as defined by (Wood & Jones, 1998), include the attenuation of monitoring costs, bonding costs, search costs, warranty costs, and residual losses (Ansong, 2017).

To supplement this theoretical framework, Tang et al. (2012) note that the major stakeholder groups, which include employees, customers, government bodies and media organizations, are, in general, demonstrably favorable towards the CSR activities of firms. This desirable stakeholder response, they posit, results in a ripple effect of organizationally advantageous results, such as improved corporate image, the acquisition and retention of better human resources, and the development of more innovative potential and organizational responsiveness. In their turn, these intermediate outcomes are proximate culminates of enhanced financial performance, thus creating a logically, and empirically consistent channel through which CSR

engagement eventually translates into elevated-level economic performance.

Combined, the theoretical insights of (Wood & Jones, 1998) and the empirical data of (Tang et al., 2012) offer an interesting and theoretically sound perspective on predicting that stakeholder engagement would act as a powerful mediating variable in the correlation between CSR and financial performance - converting the reputational, human capital, and innovation-related advantages of socially responsible behaviour into concrete and quantifiable enhancements in organizational financial performance.

H4: Stakeholder engagement mediates the relationship between CSR and financial performance.

Table 1: Summary of hypotheses

H1	CSR has a significant positive effect on financial performance.
H2	CSR has a significant positive effect on stakeholder engagement.
H3	Stakeholder engagement has a significant positive effect on financial performance.
H4	Stakeholder engagement mediates the relationship between CSR and financial performance.

(Source: self-constructed)

3. Research Methodology

The objective of the study is to analyze the association of CSR and financial performance with focus on stakeholder engagement by employed mediation analysis. Multiple regression analysis, structural equation modeling, Sobel test and Hayes SPSS Process Macro are some statistical methods are used to examine the effect of third variable on relation between independent and dependent variables. In present study mediation analysis was done through Hayes SPSS Process Macro. Population for the research are SMEs of India and sample size for the study is 196 SMEs. Structured questionnaire was prepared to collect data from owners, managers and CEOs of SMEs. Questionnaire was validated with content validity and scales were adapted with previous studies. For measuring CSR and financial performance subjective question were added to the questionnaire. Hence, variable for financial performance were perceived as the responses on subjective questions are based on the perception of respondents.

Assumptions:

After collection of data, normality, linearity and homoscedasticity of the data was checked. Shapiro-wilk test, skewness and kurtosis values were within acceptable limits, suggesting normality of the data, thereby satisfying the normality assumption. The significant positive correlations among CSR, SE and FP indicates the presence of linear relationship, hence satisfying the linearity assumption. The Breusch-Pagan test indicated the presence of heteroscedasticity. However, given the cross-sectional nature of data and large sample size, the results remain robust and reliable. The data was deemed appropriate for conducting regression and mediation analysis and no severe violations were observed that would compromise the integrity of the results.

3.1 Conceptual framework

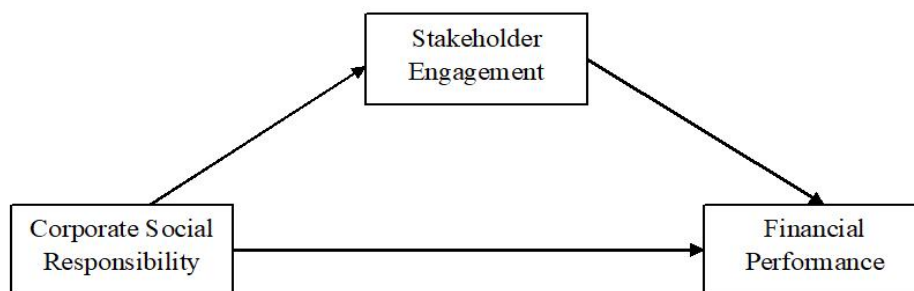


Figure 1: Conceptual framework of the study

(Source: self-constructed)

3.2 Mediation Analysis

In SPSS, mediation analysis was done through Process Macro, which is a bootstrapping statistical computer tool written by Andrew Hayes. The program computes the effect of one or more mediating or moderating variables on relationship between independent and dependent variables. In this program direct, indirect and total effect were computer with unstandardized and standardized regression coefficients, standard error, value of t-statistics, p-value and R² (Soleman & Tiffanie Victoria, 2021). If the direct effect becomes insignificant so there will be full mediation. If both

direct and indirect effect are significant, then there will be partial mediation. And in case indirect effect is not significant, then there will be no mediation.

Direct Effect

Direct effect means effect of independent variable on dependent variable without any mediation. In table 2 below, the direct effect of CSR on FP was presented, where FP is dependent variable and CSR is predictor. The table shows regression analysis, where $\beta = 0.826$, $t = 10.321$, $p < 0.05$, which means CSR is significant predictor of financial performance.

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	.134	.297		.452	.652
	CSR	.826	.080	.591	10.321	.000

a. Dependent Variable: FP

(Source: author's calculation)

Indirect Effect

The impact of CSR on financial performance has calculated by using stakeholder engagement as mediating variable. This indirect effect was calculated in two parts; first part shows the regression analysis of CSR on stakeholder engagement and in the second part the regression

analysis of stakeholder engagement on financial performance was presented.

In table 3 below, the effect of CSR on SE was presented, where SE is dependent variable and CSR is predictor. The table shows regression analysis, where $\beta = 0.786$, $t = 16.721$, $p < 0.05$, which means CSR is significant predictor of stakeholder engagement.

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	.632	.174		3.623	.000
	CSR	.786	.047	.765	16.721	.000

a. Dependent Variable: SE
(Source: author's calculation)

In table 4 below, the effect of SE on FP was presented where FP is dependent variable and SE is predictor. The table shows regression analysis,

where $\beta = 0.399$, $t = 4.324$, $p < 0.05$, which means stakeholder engagement is significant predictor of financial performance.

Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.744	.330		5.287	.000
	SE	.399	.092	.294	4.324	.000

a. Dependent Variable: FP
(Source: author's calculation)

Direct effect of CSR on financial performance is statistically significant. Also, indirect effect of CSR

on financial performance using stakeholder

engagement as a mediating variable, is statistically significant. Hence, the study shows partial mediation.

4. Result and discussion

To examine the mediating role of stakeholder engagement on relationship between CSR and financial performance, mediation analysis was conducted using Process Macro in SPSS developed by Andrew F. Hayes. The significance of the indirect effect was assessed using bootstrapping with 5000 resamples and a 95% confidence level.

Hypothesis testing

H1: CSR has a significant positive effect on financial performance.

Result: The coefficient $\beta = 0.826$ indicates a strong positive relationship between CSR and financial performance. The value of t-statistics = 10.321, which is very high, showing that the effect is statistically strong. The p-value (<0.05) indicates that the relationship is statistically significant. Result indicates that CSR enhances the financial performance of SMEs, even after accounting for the mediating role of stakeholder engagement. Therefore, the hypothesis proposing a significant positive effect of CSR on financial performance is supported.

H2: CSR has a significant positive effect on stakeholder engagement.

Result: The coefficient $\beta = 0.786$ indicates a strong positive relationship between CSR and stakeholder engagement. The value of t-statistics = 16.721, which is very high, showing that the effect is statistically strong. The p-value (<0.05) indicates that the relationship is statistically significant. Result indicates that SMEs engaging in higher levels of CSR are more likely to foster stronger relationship with their stakeholders. The finding highlights the importance of transparency and responsible practices in enhancing stakeholder trust, participation and involvement. It aligns with the motion that CSR activities act as a communication mechanism that strengthens firm-stakeholder relationships. Therefore, the hypothesis proposing a significant positive effect of CSR on stakeholder engagement is supported.

H3: Stakeholder engagement has a significant positive effect on financial performance.

Result: The analysis reveals that stakeholder engagement has a significant positive effect on financial performance ($\beta = 0.399$, $t = 4.324$ and $p < 0.05$). This shows that firms with better stakeholder engagement tend to achieve improved financial outcomes. The results support the argument that engaged stakeholders contribute to organizational success through increased loyalty, improved reputation and enhanced operational efficiency. Therefore, the hypothesis proposing a

significant positive effect of stakeholder engagement on financial performance is supported.

H4: Stakeholder engagement mediates the relationship between CSR and financial performance.

Result: The findings confirm that stakeholder engagement plays a significant mediating role in the relationship between CSR and financial performance. Since direct effect (CSR \rightarrow financial performance) and indirect effect (CSR \rightarrow stakeholder engagement and stakeholder engagement \rightarrow financial performance) are statistically significant, the mediation can be classified as partial mediation. Therefore, the hypothesis proposing the mediating effect of stakeholder engagement on relationship between CSR and financial performance is supported.

The findings of this research give solid evidence to the positive contribution of CSR to the financial performance of SMEs. The high correlation between CSR and stakeholder engagement suggests that more successful companies in terms of establishing meaningful stakeholder relations are those that proactively report on their CSR programs. Moreover, the fact that stakeholder engagement positively affects the financial performance supports the notion that stakeholders are a valuable resource to SMEs. Participated stakeholders help to make better decisions, customer loyalty, brand image, which eventually leads to a better financial performance.

The fact that partial mediation existed implies that as much as stakeholder engagement is a significant mechanism, CSR has a direct impact on financial performance as well. These can be as a result of improved corporate image, compliance with regulations and competitive edge based on CSR practices. In general, the results can be attributed to the stakeholder theory, which underlines the necessity to regulate relationships with different stakeholders in order to attain the organizational success. The research also affirms earlier studies that CSR activities are not only ethical requirements, but also strategic resources that can be used to boost the performance of firms.

5. Managerial Implications

The results of the present research have a number of significant implications to the managers of SMEs. First, the high positive influence of CSR on stakeholder involvement and financial performance indicates that CSR can not be considered only as a compliance issue but can be regarded as a strategic investment. Managers need to be proactive in designing and communicating CSR initiatives to improve transparency and create trust among stakeholders. Second, the mediating effect of stakeholder engagement points to the fact that CSR initiatives produce greater results when the stakeholders are engaged. Hence, managers need to concentrate on involving critical stakeholders, including customers, employees, suppliers and local

communities as part of the frequent communication, feedback and participation programs.

Third, the CSR has positive impact on financial performance, so the SMEs need to implement organized reporting. Simple CSR reports, social media disclosures or sustainability updates can be useful even to small firms that can send signals of accountability and responsibility to the market. Also, managers ought to consider CSR as part of the business strategy as opposed to it being a fringe activity. By aligning CSR with business objectives, there might be improved reputation, competitive advantage and long-term sustainability. Lastly, the results highlight that stakeholder relationships are worthwhile intangible assets. Relationship building techniques ought to be invested in by managers to create greater financial returns to CSR initiatives; these techniques include stakeholder dialogue, grievance redressal systems and collaborative decision making.

6. Conclusion

This paper has explored the association between CSR and financial performance in SMEs, and stakeholder engagement in the study as a mediating variable. The results reveal that CSR has a significant positive impact on both stakeholder engagement and financial performance. Moreover, the stakeholder engagement has a strong impact on financial performance, which proves its utmost importance to organizational success. According to the mediation analysis, stakeholder engagement partially mediates the relationship between CSR and financial performance. This implies that CSR directly and indirectly improves financial performance through improving stakeholder relationship. In general, the research supports the notion that CSR is not just an ethical obligation but also a strategic instrument to enhance the performance of firms. Through proper engagement of stakeholders and open communication of CSR activities, SMEs are able to realize sustainable growth and a competitive advantage.

7. Limitations & future research directions

In spite of its contributions, the study has some limitations which are worth noting. To begin with, the research is based on self-reported data, which can be biased by response or social desirability. The respondents may exaggerate their CSR practices or financial performance. Second, the study targets SMEs in a particular geographical location (e.g., Indian SMEs), and this could restrict the transfer of the results to other geographical locations or big organizations. Third, stakeholder engagement was viewed as a mediator only, and the rest of the potentially mediating or moderating variables (corporate reputation, innovation, or firm size) were not taken into account. Lastly, the research primarily involved application of perceptual measures of

financial performance which might not be the same as objective financial measures. Secondary financial data could be included in future research to enhance the analysis.

Researchers can expand the model by adding more variables as mediator and moderator. The future research may perform in different geographical location and in different type of industry. The study can be extended by using objective measures of financial performance such as return on investment (ROI), return on equity (ROE) or profit margins.

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