THE ROLE OF STAKEHOLDER HETEROGENEITY IN THE CORPORATE SOCIAL RESPONSIBILITY – CORPORATE FINANCIAL PERFORMANCE RELATIONSHIP

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Empirical evidence on the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) remains contentious in terms of both its direction and causality. The presented study explores the intervening roles of stakeholder heterogeneity and the time dimension in the CSR–CFP relationship. We posit that there is a positive relationship between CSR activities towards market stakeholders (employees, customers, competitors) and future CFP and a negative relationship between CSR activities towards non-market stakeholders (NGOs, society, natural environment) and future CFP. A conceptual model is analysed using a sample of 115 Croatian companies. Countering expectations, a positive relationship is observed for all stakeholder groups considered (market and non-market), showing that CSR is a coherent construct regardless of the stakeholder group being studied. The key managerial implication is that socially responsible action is also in a company's economic interest.

Keywords: corporate social responsibility, financial performance, stakeholders, stakeholder pressures, PLS-SEM, Croatia

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INTRODUCTION

It was long held that the sole aim of running a business is to increase the value for shareholders (Friedman, 1970). Yet, in the mid 1980s Freeman (1984) argued that a wider group of stakeholders' interests should be considered while running a business, giving rise to the concept of corporate social responsibility (CSR). CSR is an interesting object of enquiry in two contexts. In a social one, it represents a corporate response to societal problems, such as environmental pollution, climate change, economic inequality and poverty, public health issues. CSR activities can contribute to environmental protection, better health, education level, and general well-being (Księżak, 2016). In an economic context, although CSR is costly for firms, it is also vital for their economic survival (Clarkson, 1995) and can even induce an increase in economic rents (Cadez et al., 2019). The latter is an ideal scenario, meaning that firms are simultaneously socially responsible and improve their financial performance.

While CSR is gaining prominence in business practice (Godfrey et al., 2009), for most companies the bottom line remains the ultimate goal. The relationship between CSR and corporate financial performance (CFP) is extensively investigated in business literature, yet evidence on it remains contentious. The nature of the relationship is the first concern. Theoretically, two competing rationales appear in the literature: the trade-off rationale posits a negative relationship while the social impact rationale proposes a positive one. Empirical evidence is nowhere near conclusive in this regard (Galant & Cadez, 2017). The second ambiguity is the causality of the relationship. Although CSR is typically theorised as a driver of CFP, it is equally likely that CSR is driven by CFP since financial resources are needed to engage in socially responsible action (Soana, 2011).

The stakeholder heterogeneity perspective builds on the fact that CSR is a holistic concept comprising responsible corporate action towards a range of different stakeholders. These mixed stakeholders are not only very heterogeneous in their demands upon companies, but in their ability to affect their financial performance (Cadez et al., 2019). Market stakeholders are highly influential by economically transacting with companies, meaning their decisions can trigger an immediate rise/shortfall in economic rents. On the contrary, non-market stakeholders do not make economic transactions with companies but may influence their economic rents indirectly by conveying information (Cadez et al., 2019).

This study's purpose is to explore the intervening role of stakeholder heterogeneity in the relationship between CSR and CFP. The influence of stakeholder heterogeneity is a sur-

prisingly under-researched topic despite the prospects of it meaningfully explaining many contradictory results in the literature. More precisely, informed by stakeholder theory, we examine whether the social impact hypothesis applies more to corporate responsibility towards market stakeholders and the trade-off hypothesis applies more to corporate responsibility vis-à-vis non-market stakeholders. The proposed conceptual model also involves the time dimension and examines the reciprocal nature of the CSR–CFP relationship.

Data to test the proposed model were collected from a sample of 115 Croatian medium-sized and large companies. Croatia is an interesting idiosyncratic context given that it has recently undergone major social change (Cadez, 2013). Until 1991, Croatia was a socialist country with social (as opposed to state) company ownership (Rant et al., 2020). Notable characteristics of socialist companies were mandatory respect of employees' rights and mandatory donations to society without any direct economic benefit (Vuković et al., 2020). In the early 1990s, it transformed radically into a capitalist country, including ending companies' extensive social programmes (Iankova, 2008). Nevertheless, today remnants of socialism like social responsibility over the profit motive sometimes persist in the region (Cadez & Guilding, 2012).

The study provides several contributions to the literature. First, it establishes differences in the CSR–CFP relationship concerning various stakeholder groups. Given that stakeholder demands may be indefinite while corporate resources are limited, these differences could be a helpful pointer for managers regarding how to balance CSR activities to increase financial performance. Second, it incorporates the time dimension and reciprocity of the CSR–CFP relationship. The third contribution is evidence from an under-researched context, i.e. a small, transitional country with limited experience with capitalism.

The paper is structured as follows. Based on the theoretical background and literature review, a conceptual model is developed and a hypothesis defined. The method and results are next presented. The paper concludes with a discussion and conclusion.

THEORY AND LITERATURE REVIEW

Stakeholder theory

While discussing the business case for CSR, two views emerge: the "shareholder perspective" and "stakeholder perspective". According to the former, the main responsibility of a business is to preserve and increase the company's value for its own-

ers (shareholders). Its main proponent Milton Friedman (1970) argued the sole "social responsibility of business" is to "increase its profits" whilst staying "within the rules of the game" (Porter & Kramer, 2002). In Friedman's view, investments in CSR activities are resource-consuming and decrease profit and shareholder value.

The opposite view, the "stakeholder perspective", was introduced by Freeman (1984) as stakeholder theory. In stakeholder theory, company and business executives should "take into account all individuals and groups with a "stake" in or claim on the company". Stakeholders make up part of society from which companies derive resources, meaning companies should care about society. The definition of stakeholders initially only included human stakeholders. Starik (1995) proposed an extended definition by introducing non-human groups and individuals. In this extended definition, stakeholders are "any naturally occurring entity which affects or is affected by organizational performance". Consistent with this theory, companies should shift their focus from shareholders value maximisation to maximising the value of multiple stakeholders (Becchetti & Trovato, 2011).

Corporate social responsibility (CSR)

The multitude of CSR definitions found in the literature enjoy only limited consensus on the concept's meaning (Wang et al., 2020). Following content analysis of different CSR definitions, Dahlsrud (2008) identified five key dimensions of CSR: environmental, social, economic, stakeholders and voluntariness. The European Commission's (2002) definition of CSR covers all five dimensions: "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis".

Corporate financial performance (CFP)

CFP typically relates to accounting-based parameters like profit, profitability and cash flow. Another type are market-based parameters, such as share price and market value, although these are only available for listed companies (Galant & Cadez, 2017).

CSR–CFP relationship

Theoretically, two opposing rationales appear in the literature on the CSR–CFP relationship (Preston & O'Bannon, 1997): the trade-off hypothesis and the social impact hypothesis.

The trade-off hypothesis, typically advanced by neoclassic economists, argues that CSR is costly and thus greater CSR

lowers financial performance (Friedman, 1970). For example, financial support given to NGOs or societal projects is an imminent financial outlay without any direct financial returns. This view has also received empirical support (Baird et al., 2012; Lin et al., 2019; Makni et al., 2009).

However, the social impact hypothesis posits that appeasing stakeholders' demands led them to make favourable economic choices and thereby increases economic rents (Cadez et al., 2019). The underlying expectation is that appeased, such stakeholders will change or align their behaviour in a manner that increases the company's financial performance. This view also finds ample empirical support.

In reality, these fairly straightforward expectations are shaped by at least three important intervening variables: time, CSR scale, and stakeholder heterogeneity.

As for the time dimension, the reciprocal effects between CSR and CFP are likely to be time-lagged. For example, while socially responsible corporate actions generally involve imminent cost outlays (and thus deteriorated current CFP), favourable stakeholder reactions to these actions may be time-lagged since changing one's behaviour is often a long journey. Namely, in the short term the effect of CSR on CFP may be negative while in the longer term it may become positive. Another time-related issue is causality. It is reasonable to assume that more profitable companies have more resources which they can allocate to CSR activities (Soana, 2011). In other words, it may be that current CSR is driven by past CFP (Waddock & Graves, 1997).

The second intervening variable is the scale of the CSR. Some studies report that the relationship between CSR and CFP is not linear but U-shaped or inverse U-shaped (Barnett & Salomon, 2012; Wang et al., 2008). This not only suggests that the financial returns from CSR are diminishing/increasing but even that the relationship could be positive within one relevant range and negative within another. We do not delve into the issue of (non)linearity in this study.

The third intervening variable is stakeholder heterogeneity. As mentioned, balancing multiple stakeholder claims is complex due to both the heterogeneity of their claims and their abilities to affect economic rents. Market stakeholders are those that engage in economic transactions with the company (e.g. customers, employees, competitors). In effect, their favourable or unfavourable economic choices hold the power to trigger an immediate increase or shortfall in economic rents (Cadez et al., 2019). Non-market stakeholders are those that do not make economic transactions with the company (e.g. NGOs, society, natural environment). While they do not have the

ability to influence economic rents directly via economic transactions, they can be indirectly influential by conveying information (Henriques & Sadorsky, 1999).

The role of stakeholder heterogeneity in the CSR–CFP relationship

The different transactional nature of market and non-market stakeholder groups led Cadez et al. (2019) to argue that the social impact hypothesis rationale appears more valid for market stakeholders that engage in economic transactions with the company while the trade-off hypothesis rationale appears to apply more to non-transacting stakeholders. Nevertheless, to complicate matters, responsible action vis-à-vis one stakeholder group can be observed with other stakeholder groups (spillover effects). For example, environmental pollution is most devastating for the natural environment, a stakeholder group without the power to influence the economic rents of polluting companies. However, corporate eco-friendly behaviour can be viewed favourably by transacting market stakeholders and may materialise in their favourable economic choices (Liu et al., 2017), thus eco-friendly cost outlays might materialise in increased financial performance indirectly via favourable economic choices of third parties.

The proposed conceptual model for testing in this study is shown in Figure 1. The central interest of the study is the two-way relationship between stakeholder-group-oriented CSR and CFP, but also includes two highly influential contingencies: stakeholder pressures and company size.

⌒ FIGURE 1
Conceptual model

Note: Stakeholder-group-oriented CSR in this study includes corporate responsibilities regarding six distinct stakeholder groups: (1) employee responsibility (2) customer responsibility, (3) competitor responsibility, (4) NGO responsibility, (5) societal responsibility, and (6) environmental responsibility.

The influence of stakeholder heterogeneity is tested by analysing six variations of the conceptual model; one for each stakeholder group appraised. We examine three stakeholder

groups from each of the two higher-order groupings, i.e. market and non-market stakeholders. Market stakeholders are represented in this study by employees, customers and competitors. Non-market stakeholders are represented by NGOs, society and the natural environment. Considering the different transacting nature of these stakeholders (market vs non-market), both theoretical rationales (social impact hypothesis and trade-off hypothesis) are considered when deriving the expected relationships.

Hypotheses development

Consistent with previous arguments, it is reasonable to assume that financially successful companies have accumulated more resources available for current and future CSR activities (Soana, 2011). In fact, CFP is often viewed as essential for a company to be able to meet social demands and be socially responsible. Accordingly, we hypothesise that CFP is positively related to CSR. We also posit that this relationship is time-lagged since accumulated financial resources are a precondition for socially responsible conduct (Godfrey & Hatch, 2007).

Empirical evidence supports a positive relationship expectation. Nelling & Webb (2009), for example, found that CSR is positively related with a company's prior financial performance. Similarly, Erhemjamts et al. (2013) determined that less financially constrained companies are more likely to engage in CSR practices. Based on the rationale and earlier evidence, the following hypothesis is advanced.

Hypothesis 1: Past-year CFP is positively associated with stakeholder-group-oriented CSR.

Employees are a key stakeholder in any organisation. By engaging in CSR programmes that are human resources (HR) oriented, companies can benefit from increased job satisfaction, reduced turnover intentions, higher organisational commitment, less absenteeism, greater productivity, higher motivation, improved reputation and fostered proactive behaviour. This makes it likely that the financial benefits of their favourable reactions are time-lagged as employees and prospective employees first need to observe CSR actions and then align their reactions accordingly, with both being time-consuming activities (Kacperczyk, 2009). While employee responsibility is associated with imminent cost outlays (and may thus even deteriorate current CFP), we posit that these are outweighed by future financial benefits.

Several empirical studies report a positive effect of HR-oriented CSR actions on CFP (Saleh et al., 2011), which leads us to the following hypothesis.

Hypothesis 2a: Employee responsibility is positively associated with next-year CFP.

Customers are another key stakeholder that act as 'rewarding and punishing authorities' whose decisions to buy (or not) directly affect bottom lines. By improving customers' satisfaction, companies can secure long-term superior economic returns via their willingness to buy, customer retention, customer loyalty, and attraction of new customers by word of mouth. Moreover, reputation is also an important consideration when attracting new customers. Consistent with the rationale in the preceding hypothesis, we posit that favourable reactions are time-lagged as customers and prospective customers first need to observe responsible actions and align their reactions accordingly, which may be time-consuming.

As for empirical evidence, a positive effect of customer responsibility on CFP was found by Gregory et al. (2014). Still, Hillman & Keim (2001) found no association between customer-oriented CSR and profitability. Despite the mixed empirical evidence, we follow the theoretical rationale and propose the following hypothesis:

Hypothesis 2b: Customer responsibility is positively associated with next-year CFP.

Competitors are not simply rivals in the market, but can also be current or potential business partners (customers, suppliers), a source of mutual support or even collaboration to ensure survival in the market (Spence et al., 2001). Collaboration between competitors is common in areas of research, development and innovation, joint lobbying efforts or on industry panels for dealing with labour and other problems (Harrison & John, 1996). In effect, good competitor relations can result in cost savings or sales increases, while bad relations can be detrimental for all companies involved. Dissatisfied competitors can release negative information about their rivals to the public, which may then trigger unfavourable behaviour by other stakeholders (Harrison & John, 1996). In line with the same rationale as in the previous hypotheses, we hypothesise that this effect is time-lagged.

Hypothesis 2c: Competitor responsibility is positively associated with next-year CFP.

NGOs' main social purpose is to increase the quality of life for society or for a group of people that the NGO represents. In attempting to do so, they can engage in either confrontational or collaborative action with companies (Arenas et al., 2009). Confrontational action involves conducts like protests, civil lawsuits and letter-writing campaigns in order to

meet their interests (Eesley & Lenox, 2006). If such actions accrue, direct costs (e.g. legal fees, public relations expenses) and indirect costs (negative image and reputation) are likely (Eesley & Lenox, 2006). For these reasons, collaborative action is often preferred over confrontation. Still, while harnessing collaborative actions is inevitably resource-consuming, the benefits (e.g. NGOs' advice and expertise, public support) might not materialise financially (Peloza, 2006). Given these arguments, we expect that the costs of NGOs' responsibility outweigh the potential financial benefits. Consistent with the earlier hypotheses, we posit that this relationship is time-lagged.

Hypothesis 2d: NGOs' responsibility is negatively associated with next-year CFP.

Companies are citizens whose creation and continued existence inevitably depends on society and hence they have a moral responsibility to contribute back to society (O'Higgins, 2010). This contribution can take many different forms such as public programmes, donations, sponsorships, charity actions etc. It is evident that these actions entail direct financial costs whereas short-term financial benefits are unlikely, meaning a negative effect is expected on CFP.

Contrary to the theoretical rationale presented above, some studies report a positive relationship between societal responsibility and CFP (Gregory et al., 2014). A potential factor at play here is spillover effects. In other words, societal responsibility is observed by other stakeholders (which essentially all form the society as the highest-order stakeholder group) and thus the potential benefits of societal responsibility may be indirect through the favourable economic decisions of other stakeholders (for example, customers may be willing to buy more from socially responsible companies). Acknowledging the disparity between the theoretical rationale and empirical evidence, we follow the theoretical rationale and propose the following hypothesis.

Hypothesis 2e: Societal responsibility is negatively associated with next-year CFP.

The traditional view held that environmentally responsible action (pollution prevention, waste clean-up, eco-friendly technology etc.) is costly for a company with no direct benefits because the natural environment does not engage in economic transactions with companies (King & Lenox, 2002). Yet, the contemporary perspective views pollution as a result of inefficiencies in production processes (Cadez & Guilding, 2017). In effect, a carefully crafted environmental strategy that is in

harmony with the concept of eco-efficiency (Czerny & Let-mathe, 2017) can trigger the double dividend of greater resource efficiency (and in turn reduced costs) and lower pollution (King & Lenox, 2002).

The empirical evidence is equivocal. Secinaro et al. (2020) found that good environmental performance is positively associated with good economic performance. However, Hillman & Keim (2001) and Berman et al. (1999) found no relation between environmental concerns and CFP, while Wagner et al. (2002) established a uniformly negative relationship. In light of the opposing theoretical rationales and mixed empirical evidence, we follow the higher-order trade-off hypothesis and put forward the following hypothesis:

Hypothesis 2f: Environmental responsibility is negatively associated with next-year CFP.

An important reason for engaging in CSR is responding to stakeholder pressures. Stakeholder pressure can be defined as "the ability and capacity of stakeholders to affect an organization by influencing its organizational decisions" (Helmig et al., 2016). We hypothesise that the scale of CSR is contingent upon the intensity of stakeholder pressures. At low intensities, companies make more superficial responses (Boiral et al., 2012), such as impressions management. On the contrary, high intensity contexts require more substantial responses by integrating social and environmental considerations into strategic planning processes (Delmas & Toffel, 2008).

The empirical evidence supports this expectation. Yu & Choi (2016) found that stakeholder pressure has a positive influence on the adoption of CSR practices. Considering only environmental-related CSR practices, Cadez et al. (2019) also found a positive effect of stakeholder pressure on environmental practices.

Hypothesis 3: Stakeholder pressures are positively associated with stakeholder-group-oriented CSR.

Another important determinant of CSR identified in prior research is company size. Large companies are more visible in society and hence are likely to be pressured towards higher levels of social responsibility than small companies (Udayasankar, 2008). Further, from the push side, large companies also possess more resources which can be directed to CSR activities than small companies (Udayasankar, 2008). Theoretical reasoning thus supports a positive relationship between size and current CSR (Brammer & Millington, 2006).

Empirical evidence is also supportive of this expectation as the positive effect of size on CSR dominates in the empiri-

cal literature. However, in the interest of objectivity, no effect of size on CSR has also been documented (e.g. Wu, 2006), as well as a U-shaped relationship between size and CSR (small and large companies exhibit higher levels of CSR than medium-sized ones) (Udaysankar, 2008).

Hypothesis 4: Company size is positively associated with stakeholder-group-oriented CSR.

METHODOLOGY

Variable measurement

CSR was measured using an instrument developed by Turker (2009). The instrument gauges socially responsible action towards each stakeholder group separately. We deployed 26 items from Turker's instrument relevant to our study: 6 for employee responsibility, 3 for customer responsibility, 5 for societal responsibility, 4 for competitor responsibility, 4 for environmental responsibility, and 4 for NGO responsibility. The scale for socially responsible action vis-à-vis different stakeholders ranged from 1 (low responsibility) to 5 (high responsibility). For each group, the summated score was calculated as the average of original items.

CFP was measured by Return on Equity (ROE). Past-year CFP was measured using ROE for the year 2015, while next-year CFP was measured using ROE for 2017.

As for contingency variables, stakeholder pressures were measured with an instrument developed by Buysse & Verbeke (2003). Respondents were asked to assess the level of different stakeholder pressures on a 5-point Likert scale (1 – no influence at all, 5 – very strong influence). The non-human stakeholder natural environment was not included in the assessment of stakeholder pressures. Size was measured with total assets in 2016. Due to the non-normal distribution of the variable, the natural logarithm was used.

Data analysis

PLS path modelling was applied using the software application Smart PLS (Ringle et al., 2015) to analyse the proposed model. In total, six models were analysed, one for each stakeholder group appraised. Original items (collected with a questionnaire) were used as indicators for stakeholder-group-oriented CSR (e.g. employee responsibility is represented with six questionnaire items concerning employees).

Model testing was conducted in two commonly suggested steps (Hair et al., 2017). The measurement model (outer model) was assessed first (single indicator constructs were not included in the measurement model's evaluation) for internal

consistency reliability, indicator reliability, and convergent and discriminant validity. The estimation of the structural (inner) model followed upon confirmation that the measurement model holds in terms of reliability and validity.

Data and sample

For purposes of this research, two datasets were collected: data on CSR and data on CFP. Data on CSR were collected using an online survey questionnaire. A questionnaire deemed to be the most suitable option given the lack of archival data for the context examined in this study, thus rendering reputational indices and content analysis useless. The survey instruments were adopted from prior studies and translated into Croatian.

The target population was large companies while the target respondents were top managers in these companies. The sampling frame comprised all large Croatian companies, the 500 biggest medium-sized companies, banks, insurance companies and publicly listed companies (not included in previous groups), making a total of 912 companies. The survey data collection occurred between November 2016 and March 2017. The final sample comprises 115 companies.

Data on CFP were collected from companies' financial reports for 2015 and 2017. Financial reports were taken from Poslovna.hr (Poslovna.hr, 2019). An accounting-based measure was used to assess CFP since such a measure better reflects the internal efficiency of a company (Vitezić et al., 2012) and because they are widely available.

Descriptive statistics are presented in Table 1. As seen in the table, most variables are negatively skewed with means closer to the highest than lowest value, indicating relatively high levels of CSR activities.

↻ TABLE 1
Descriptive statistics

	N	Min	Max	Mean	Std. dev.	Skewness	Kurtosis
Employee responsibility	115	1	5	3.83	0.76	-0.81	1.26
Customer responsibility	115	2	5	4.48	0.59	-1.33	2.12
Societal responsibility	115	1.2	5	4.25	0.67	-1.61	4.39
Competitor responsibility	115	2.25	5	4.17	0.63	-0.62	0.36
Environmental responsibility	115	1	5	4.26	0.76	-1.40	2.78
NGO responsibility	115	1.75	5	3.46	0.75	-0.13	-0.16
Employee pressures	115	1	5	3.63	0.95	-0.31	-0.24
Customer pressures	115	1	5	3.85	1.03	-0.83	0.39
Society pressures	115	1	5	3.80	0.95	-0.78	0.62
Competitor pressures	115	1	5	3.30	1.07	-0.42	-0.33
NGO pressures	115	1	5	2.93	1.06	-0.09	-0.50
LN Total assets	115	16.74	25.38	20.25	1.76	0.55	0.17
CFP t-1	115	-1.00	0.80	0.09	0.21	-1.13	8.24
CFP t+1	115	-3.66	1.10	0.05	0.49	-5.88	40.91

Table 2 presents correlation coefficients between constructs of interest in this study. As the table shows, corporate responsibilities towards different stakeholder groups were fairly strongly positively correlated with each other. The lowest correlation was observed between NGO responsibility and environmental responsibility (0.50) and the highest between employee responsibility and competitor responsibility (0.75).

Of particular interest in this study were the correlations between corporate responsibilities towards different stakeholder groups and financial performance. The correlations between responsibilities and future financial performance were quite small, but all positive (opposite to what we expected for three stakeholder groups), and with one exception, statistically significant. The highest correlation was observed between environmental responsibility and future financial performance (0.23). The only non-significant correlation was between competitor responsibility and future financial performance. Interestingly, past financial performance was not related to stakeholder-group-oriented responsibilities at statistically significant levels for any of the six stakeholder groups appraised.

⏱ TABLE 2
Correlation matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Employee responsibility	1									
(2) Customer responsibility	0.60***	1								
(3) Societal responsibility	0.71***	0.60***	1							
(4) Competitor responsibility	0.75***	0.61***	0.69***	1						
(5) Environmental responsibility	0.64***	0.52***	0.64***	0.65**	1					
(6) NGO responsibility	0.61***	0.53***	0.63***	0.60***	0.50***	1				
(7) Stakeholder pressures	0.57***	0.44***	0.50***	0.46***	0.48***	0.59***	1			
(8) Size	-0.14	-0.15	0.02	-0.20**	-0.04	0.13	-0.02	1		
(9) CFP t-1	0.16*	0.17*	0.17*	0.15	0.23**	0.16*	0.08	-0.13	1	
(10) CFP t+1	0.03	0.13	0.08	0.04	0.09	0.10	0.02	-0.17*	0.38***	1

Note: $*p < 0.10$, $**p < 0.05$, $***p < 0.01$

STRUCTURAL MODEL TESTING: RESULTS

We first estimated six measurement models (one for each stakeholder group examined). Details are not presented due to the large number of parameters estimated (i.e. 30 loadings were estimated in 6 models, each model comprised 5 loadings for stakeholder pressure indicators and 3 to 5 loadings for stakeholder-group-oriented CSR indicators). No indicator was eliminated from the analysis. Composite reliability was higher than 0.70 and AVE was higher than 0.5 in all sub-models. Discriminant validity was established by analysing the HTMT criterion (values below 0.85) and cross-loadings (no loadings detected). The Fornell-Larcker criterion was also met.

Estimation of the Structural model started with a collinearity assessment. The analysis showed that collinearity did not represent a problem in any model. The next step was to assess the path coefficients using a bootstrapping procedure (see Table 3). The path coefficient from stakeholder-group-oriented CSR activities to ROE t+1 was positive and statistically significant in all estimated models (t statistics > 1.65 and p values < 0.10). Contrary to the trade-off motivated hypotheses, no negative coefficients were detected in any model for the CSR – ROE t+1 path. The path coefficient from ROE t-1 to CSR was significant only for NGO responsibility and was positive (t statistics > 1.65 and p values < 0.10).

As for CSR contingencies, the path from stakeholder pressures to stakeholder-group-oriented CSR was very strong and significant across all models. The path from size to stakeholder-group-oriented CSR was significant in three models (employees, competitors, NGOs) but in different directions (positive for NGO responsibility and negative for employee and competitor responsibility).

Regarding effect sizes, a large effect was only detected for the path from stakeholder pressures to CSR (in all sub-models appraised). The effect size for the relationship between stakeholder-oriented CSR activities and ROE t+1 in all sub-models was small. The predictive relevance (Q2) of the exogenous construct on the endogenous construct was assessed using a blindfolding procedure. The Q2 values of endogenous constructs in all sub-models tested are larger than 0, indicating that exogenous constructs hold predictive relevance for the endogenous construct (Hair et al., 2017).

⟳ TABLE 3
Structural model estimation for the six sub-models

Relationship (path)	Path coefficients, t-tests, significance and goodness of model fit for the six sub-models Responsibility					
	Employee	Customer	Competitor	NGO	Societal	Environmental
SGOCSR -> CFP t+1	0.16**	0.17***	0.17**	0.16**	0.16*	0.23**
	p = 0.02	p = 0.00	p = 0.01	p = 0.045	p = 0.07	p = 0.01
	t = 2.49	t = 2.85	t = 2.54	t = 2.01	t = 1.84	t = 2.51
CFP t-1-> SGOCSR	0.01	0.11	0.00	0.12**	0.08	0.07
	p = 0.94	p = 0.22	p = 0.98	p = 0.04	p = 0.40	p = 0.48
	t = 0.07	t = 1.22	t = 0.02	t = 2.04	t = 0.85	t = 0.71
Stak. pressures -> SGOCSR	0.62***	0.46***	0.52***	0.65***	0.57***	0.50***
	p = 0.00	p = 0.00	p = 0.00	p = 0.00	p = 0.00	p = 0.00
	t = 10.28	t = 5.80	t = 8.00	t = 12.50	t = 9.11	t = 5.56
Size -> SGOCSR	-0.13*	-0.13	-0.20**	0.14*	0.04	-0.01
	p = 0.08	p = 0.11	p = 0.02	p = 0.07	p = 0.67	p = 0.90
	t = 1.76	t = 1.60	t = 2.44	t = 1.82	t = 0.43	t = 0.13
SRMR value	0.09	0.09	0.10	0.10	0.10	0.08

Note: SGOCSR: stakeholder-group-oriented CSR, i.e. employee responsibility in model 1, customer responsibility in model 2 etc.
***$p < 0.01$; **$p < 0.05$; *$p < 0.1$

Overall model fit was acceptable in all six sub-models with SRMR values not exceeding 0.10 in any model (SRMR values presented in Table 3).

DISCUSSION AND CONCLUSION

This study aimed to contribute to the lingering debate on the nature of the CSR–CFP relationship by disentangling the perspectives of stakeholder heterogeneity and time.

The relationship between stakeholder-group-oriented CSR and future CFP was positive for all six stakeholder groups examined (employees, customers, competitors, NGOs, society, natural environment). A positive relationship for market-stakeholders (employees, customers, competitors) had been expected. These stakeholders engage in economic transactions with companies and can influence their financial performance directly with the economic choices they make (Cadez et al., 2019).

Contrary to expectations, however, a positive relationship was also established for all non-market stakeholder groups appraised in this study (NGOs, society, natural environment) where we had posited a negative relationship. This is somewhat surprising as these groups are unable to influence financial performance directly with their economic choices (NGOs, society) or do not make economic choices at all (natural environment) (Cadez et al., 2019).

This counterintuitive finding calls for explanations. One potential explanation is the presence of spillover effects. Namely, it is possible that socially responsible actions towards non-market stakeholder groups were observed by market stakeholders which, in turn, did influence their economic choices (Liu et al., 2017). This is consistent with the argument of Henriques & Sadorsky (1999) that non-market stakeholders are indirectly influential by conveying information to other stakeholder groups. Another possible explanation concerns the different scales of responsibility vis-à-vis different groups (Barnett & Salomon, 2012). For example, it is possible that the partial effect of responsibility towards non-market stakeholders is indeed negative, but in line with the meritocracy argument the scale of this responsibility (the amount invested) might be relatively small (Phillips et al., 2003). In effect, the negative effect may be outweighed by the positive relationship between responsibility towards market stakeholders and financial performance where the scale of responsibility (amount invested) is likely to be larger and the effect size hence also larger (Barnett & Salomon, 2012).

Also countering our expectations, the relationship between past CFP and current-stakeholder-group-oriented CSR

was not statistically significant in five of the six models considered. Counter to some prior evidence (Ehremjamts et al., 2013), it appears that the decisions to invest resources in CSR activities in Croatian firms are not driven by past profitability, but other contingency factors.

Concerning the influence of alternative contingencies on CSR, a strong and significant relationship across all models was identified for stakeholder pressures. This is consistent with the findings of Cadez et al. (2019) that stakeholder pressures are an important determinant of corporate socially responsible action.

The other contingency variable examined, company size, exhibits a mixed relationship with stakeholder-group-oriented CSR. The negative relationship between size and employee responsibility indicates that appeasing employees for motivation and retention may be a more important issue for SMEs than for large firms (Jenkins, 2006). This is consistent with Santos (2011), who found that SMEs place a bigger emphasis on workplace health, safety and hygiene and human resource management (HRM). The negative relationship between size and competitor responsibility might indicate the inferior competitive position of smaller firms relative to large firms in the market and they therefore must pay more attention to maintaining good relationships with their competitors (Cadez & Guilding, 2008).

From a theoretical perspective, this study shows that CSR is a relatively coherent construct, despite it embodying responsibilities towards very heterogeneous stakeholder groups with different, even mutually conflicting demands (Evan & Freeman, 1988). Coherence is evident from the fairly high correlations between responsibilities towards different stakeholder groups and from the two highly uniform relationships in all sub-models tested (stakeholder pressures–stakeholder-group-oriented CSR; stakeholder-group-oriented CSR–financial performance). Nevertheless, the study also provides evidence that the CSR construct is not unidimensional. This is seen in the fact that the correlations between responsibilities towards different stakeholder groups are not excessively high and also from the mixed relationship between company size and stakeholder-group-oriented CSR across different stakeholder groups.

The key managerial implication of this study is that socially responsible action is also in a company's economic interest. The findings also suggest the effect size on financial performance is similar irrespective of which stakeholder group is appeased by the socially responsible action. This finding is consistent with the 'double dividend effect' (Cadez & Guilding, 2017). With socially responsible action, companies con-

tribute not only to the well-being of society and to sustainable development, but also improve their financial performance. This finding is particularly relevant for the examined context (i.e. a former socialist country) where profit maximisation has only recently replaced social responsibility as the main corporate agenda (Cadez & Guilding, 2012).

A central limitation of this research concerns the data. The small sample size can be identified as a research limitation. Response bias may also be present since company representatives might want to present their companies as being more socially responsible than they actually are. Data on CSR and profitability refer to the period 2015 to 2017, however, they reflect the social responsibility and profitability of companies in 'normal' business conditions (before the COVID-19 pandemic). Moreover, the focus of the quantitative analysis was on short-term profitability, so longer time lags were not examined, although theory suggests that adjusting stakeholder behaviour may entail a lengthy journey. Nonetheless, despite these shortcomings, the study provides interesting insights into how stakeholder heterogeneity and the time dimension influence the relationship between CSR and CFP and may serve as a useful pointer for future research.

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Uloga heterogenosti dionika na povezanost društveno odgovornoga poslovanja i financijske performanse

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Empirijska istraživanja povezanosti između društveno odgovornoga poslovanja (DOP) i financijske performanse poduzeća i dalje ostaju nejasna, u smislu smjera povezanosti te uzročnosti. U ovom radu prezentirano je istraživanje uloge heterogenosti dionika i vremenske dimenzije u analizi povezanosti DOP-a i financijske performanse poduzeća. Pretpostavljeno je da postoji pozitivna veza između DOP aktivnosti prema tržišnim dionicima (zaposlenici, potrošači, konkurenti) i buduće financijske performanse te negativna veza između DOP aktivnosti prema netržišnim dionicima (nevladine organizacije, društvo, prirodni okoliš) i buduće financijske performanse. Prezentiran konceptualni model analiziran je na uzorku od 115 hrvatskih poduzeća. Suprotno očekivanjima, detektirana je pozitivna veza za sve uključene grupe dionika (tržišne i netržišne), što dokazuje da je DOP koherentan konstrukt bez obzira na to koja se grupa dionika razmatrala. Ključna menadžerska implikacija rada odnosi se na to da su društveno odgovorne aktivnosti i u ekonomskom interesu poduzeća.

Ključne riječi: društveno odgovorno poslovanje, financijska performansa, dionici, pritisak dionika, PLS-SEM, Hrvatska