# STAKEHOLDER ENGAGEMENT AS A DRIVER IN THE CSR-PERFORMANCE DYNAMIC OF SMES

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## Abstract

*The link between corporate social responsibility and SME performance has been extensively studied. However, previous studies fail to incorporate factors facilitating this link. This study aims to fill this gap by exploring the role of stakeholder engagement and firm size in the relationship between corporate social responsibility and the non-financial performance of SMEs, providing a comprehensive understanding of strategic realization of such initiatives in SMEs. Data was collected through a self-administered questionnaire from a sample of 382 owners/ managers of SMEs in the Anuradhapura district and analyzed following the PROCESS procedure developed for SPSS. The results reveal that stakeholder engagement mediates the positive effects of economic, social, and environmental responsibility initiatives on non-financial performance. Further, firm size moderates these effects, with larger firms experiencing stronger positive impacts of such initiatives through stakeholder engagement. Accordingly, this study concludes that stakeholder engagement is crucial for the strategic realization of SMEs' corporate social responsibility efforts. These findings provide valuable insights for developing tailored corporate social responsibility initiatives that consider resource availability, dynamic capabilities and stakeholder expectations.*

Keywords: Firm size, non-financial performance, small and medium-sized enterprises, stakeholder engagement

## Introduction

Corporate Social Responsibility (CSR) has become a significant concern among businesses of all sizes, across various industries and locations with the recognition of its dual benefits for society and businesses themself (Stoain & Gilman, 2017). From a business point of view, stakeholders generally respond positively to socially responsible behaviors, which often translate into enhanced non-financial performance outcome, for example, brand reputation, employee loyalty and productivity, and customer satisfaction and retention. These non-financial performance outcomes provide competitive advantages and ensure sustainability, leading to increased financial performance in the long run. In addition to business benefits, CSR efforts fulfill a firm's responsibilities to society. By addressing economic, social and environmental issues, such CSR efforts can contribute to the overall well-being of the communities in which the firm operates. This can involve initiatives such as reducing carbon footprints, ensuring fair labor practices, supporting local charities, and investing in community development projects. Accordingly, while improving business performance, a firm's CSR efforts create a more sustainable environment, which ultimately contributes in achieving Sustainable Development Goals (SDGs).

Small and Medium-sized Enterprises (SMEs), in particular, play a crucial role in local communities in which they operate. It is generally believed that SMEs can build strong stakeholder relationships with their CSR initiatives, which consequently enhance their performance outcome and sustainability in the market. For instance, by engaging in CSR activities, SMEs can demonstrate their commitment to social and environmental issues, which helps to foster trust and loyalty among stakeholders, achieving sustained growth and long-term success. Further, strong relationships with stakeholders allow SMEs to gain valuable insights into their expectations, preferences, and values (Rodrigue et al., 2013). This knowledge can be strategically utilized in decision-making processes. Therefore, the strategic realization of SMEs' CSR efforts largely depends on the extent to which stakeholder engagement is promoted by such efforts. In this way, stakeholder engagement acts as a bridge that links a firm's CSR initiatives to its non-financial performance outcomes.

Stakeholder engagement is primarily influenced by how stakeholders perceive CSR efforts, which is however subjective and varies across stakeholder groups, markets, industries, and countries (Frynas & Stephens, 2015). This subjectivity reflects the different priorities and expectations stakeholders have regarding CSR activities. For example, in some markets, environmental initiatives might be highly valued, while in others, social or economic contributions might be more significant. Cultural differences can also influence how CSR efforts are perceived and valued by stakeholders. For instance, in some cultures, community support and philanthropy might be more appreciated, while in others, transparency and ethical business practices might take precedence. Consequently, such diverse stakeholder perceptions can challenge the extent to which a firm's CSR initiatives translate into enhanced performance outcomes (Du et al., 2010; Rhou & Koh, 2016). Therefore, the CSR-performance link should be studied by incorporating factors that bridge the link such as stakeholder engagement.

The relationship between CSR and SME performance has been extensively studied over the last few decades. The literature generally highlights the positive impact of CSR on both financial and non-financial performance outcome (Alatawi et al., 2023; Oduro et al., 2022; Saeidi et al., 2015; Torugsa et al., 2013). However, these studies typically focus on the direct effect of CSR on performance outcomes rather than incorporating factors that facilitate the CSR-performance link. Further, previous research has emphasized that the CSR-performance relationship is influenced by contextual factors such as firm type, industry characteristics, firm size, and geographic location (Dobre et al., 2015; Oduro et al., 2022). These studies have often examined contextual factors in isolation, without recognizing the complexity of their interactions (Acampora et al., 2022; Langgat et al., 2023). As a result, existing literature does not provide a comprehensive understanding of how a firm's CSR initiatives foster its performance outcomes. This study aims to address this gap by considering stakeholder engagement and firm size in the relationship between CSR and non-financial performance of SMEs. It examines how the interaction of stakeholder engagement and firm size shapes the strategic realization of CSR efforts in SMEs.

The findings of the study offer valuable insights into both theory and practice. Theoretically, the findings support the applicability of resource-based view, dynamic capability theory and stakeholder theory for conceptualizing CSR-performance relationship. theoretical frameworks. The stakeholder theory is supported, as the results highlight the crucial role of stakeholder engagement in mediating the relationship between CSR activities and non-financial performance. Practically, the findings offer valuable guidance for SMEs and policymakers. SMEs should strategically implement CSR activities, considering the importance of stakeholder engagement. By actively involving stakeholders, SMEs can maximize the positive impact of their CSR initiatives on non-financial performance. Further, SMEs should involve in developing their resources and capabilities, for example innovative ways to engage stakeholders, which consequently enhances stakeholder engagement, thereby improve their non-financial performance. Policymakers can play a supportive role by creating environments that encourage SMEs to engage in CSR activities. This could involve providing resources, training, and incentives to help SMEs develop effective stakeholder engagement strategies. By integrating these insights, SMEs can enhance their non-financial performance and contribute positively to their broader social and environmental goals as fulfilment of their responsibility towards Sustainable Development Goals (SDGs).

The remaining sections of the paper are structured as follows: Section 2 reviews the extant literature and presents the study's hypotheses. Section 3 discusses the methodology employed in the study for data collection and analysis. The empirical results are discussed in Section 4. Section 5 concludes the paper with implications for practice.

## Literature Review

CSR refers to the practices and policies undertaken by businesses to have a positive impact on society. It encompasses a wide range of activities, for example, ethical labor practices, environmental sustainability initiatives, community engagement, and philanthropy. CSR is grounded in the idea that businesses should go beyond profit-making and contribute to the well-being of their stakeholders and the community at large (Dahlsrud, 2008). The concept of CSR is a multifaceted phenomenon. According to the triple-bottom line approach, CSR initiatives are categorized into three main types: economic, social, and environmental responsibilities (Oduro et al., 2022).

CSR has been extensively studied for its impact on organizational performance. The literature recognizes that CSR has a strategic value beyond its traditionally viewed social and environment value. It means that each of the three primary dimensions of CSR contributes to various aspects of firm performance, particularly non-financial performance, which includes brand reputation, employee satisfaction, customer loyalty, and overall stakeholder trust (Alatawi et al., 2023; Oduro et al., 2022). Building on these insights, this study attempts to extend this understanding by examining how the interaction of stakeholder engagement and firm size shapes the realization of this strategic value of CSR efforts in SMEs.

### *Economic Responsibilities, Stakeholder Engagement and Non-financial Performance*

Economic responsibilities focus on a firm's financial responsibilities and commitment to economic stability and growth. The resource-based view (RBV) and dynamic capabilities theory posit that unique resources and capabilities confer competitive advantages to achieve a firm's financial responsibilities. From the RBV perspective, CSR initiatives are valuable assets that can boost brand reputation, employee engagement, and stakeholder relationships, contributing to long-term success (Barney, 1991). Dynamic capabilities theory further suggests that CSR activities foster organizational learning, innovation, and adaptability, which are crucial for responding to environmental changes (Teece et al., 1997). Thus, integrating CSR into strategic management can enhance a firm's competitiveness through improved flexibility, innovation, and risk management. According to these theoretical perspectives, economic CSR positively impact on firm's non-financial performance outcomes. Previous studies demonstrate that economic responsibility initiatives enhance both financial and non-financial performance outcomes such as market share, product quality, and customer satisfaction (e.g., Torugsa et al., 2013; Nejati et al., 2017).

Economic responsibilities plays a crucial role in enhancing stakeholder engagement. Practices such as fair wages, ethical business operations, transparency in financial reporting, and investments in local economic development build trust and confidence among stakeholders. For instance, transparent and ethical business practices signal to stakeholders that the firm is reliable and trustworthy, which increases their willingness to engage with the firm. Fair wages and good working conditions boost employee satisfaction and loyalty, leading to higher levels of engagement. Investments in local economic development demonstrate the firm's commitment to the community's well-being, fostering positive relationships and support from community stakeholders. In addition, an effective stakeholder engagement significantly enhances non-financial performance outcomes. For instance, engaged stakeholders provide valuable feedback and insights, which supports a firm better align its operations with stakeholder expectations. It results in improved brand reputation, increased customer retention, higher employee productivity, and stronger community support. Thus, economic responsibility initiatives that foster stakeholder engagement lead to these positive non-financial performance outcomes. Accordingly, it is hypothesized that stakeholder engagement mediates the positive effect of economic responsibility initiatives on non-financial performance, as given by the hypothesis H1.

H1: Stakeholder engagement mediates the positive effect of economic responsibility initiatives on non-financial performance.

***Social Responsibilities, Stakeholder Engagement and Non-financial Performance***

Social responsibilities emphasize responsibility towards societal well-being, including health, safety, and welfare of employees. The legitimacy theory, agency theory, and institutional theory emphasize the importance of external pressures and institutional contexts in shaping CSR practices. Legitimacy theory suggests that CSR enhances a firm's legitimacy by conforming to societal norms (Suchman, 1995). Agency theory posits that CSR aligns managerial and shareholder interests, improving governance and stakeholder relations (Jensen & Meckling, 1976). Institutional theory highlights that CSR helps firms meet stakeholder expectations and gain legitimacy (Campbell, 2007). Supporting these theoretical perspectives, previous studies find that social-related CSR initiatives enhance firm reputation, employee productivity, and stakeholder relationships, contributing to long-term competitiveness and sustainability (Nejati et al., 2017; Steinerova & Makovski, 2008; Turker, 2009). Further, Oduro et al. (2022) show that social responsibility initiatives have stronger effect on non-financial performance compared to financial outcomes, as these initiatives are not solely aimed at generating immediate financial returns.

Social responsibility initiatives can improve stakeholder engagement. Since such CSR focuses on initiatives such as community involvement, fair labor practices, and contributions to social welfare. These actions directly impact stakeholders' perceptions and attitudes towards the firm. For example, when a company actively participates in community development projects or supports local charities, it demonstrates a commitment to societal well-being, fostering a sense of goodwill and trust among community members and other stakeholders. Fair labor practices, including equitable treatment of employees and ensuring a safe working environment, increase employee satisfaction and loyalty. Satisfied employees are more engaged and motivated, contributing positively to the company's operations. These engaged employees are also likely to advocate for the company, enhancing its reputation. Thus, the increased stakeholder engagement leads to better feedback and collaboration, allowing the firm to better understand and meet stakeholder expectations. As a result, firm experiences improved non-financial performance outcomes such as enhanced brand reputation, increased customer retention, higher employee productivity, and stronger community support. Accordingly, social responsibility initiatives that foster stakeholder engagement lead to significant improvements in non-financial performance. Based on this ground, it can be expected that social responsibility initiatives positively influence stakeholder engagement, which in turn enhances non-financial performance. Therefore, it is hypothesized that stakeholder engagement mediates the positive effect of social responsibility initiatives on non-financial performance, as given by the hypothesis H2.

H2: Stakeholder engagement mediates the positive effect of social responsibility initiatives on non-financial performance.

***Environmental Responsibilities, Stakeholder Engagement and Non-financial Performance***

Environmental responsibilities address ecological challenges and promotes sustainable practices, aligning with the concept of double materiality which emphasizes economic viability, environmental sustainability, and social equity (European Commission, 2019). Environmental responsibilities provide opportunities for firms to engage with diverse stakeholders, including environmental groups and communities, leading to favorable non-financial outcomes such as enhanced trust and stakeholder engagement. Previous studies suggest that environmental responsibility initiatives improve SME performance by increasing reputation and access to government funding (Torugsa et al., 2013). Choongo (2017) finds that the impact of environmental responsibility initiatives on firm performance and reputation exceeds that of economic and social CSR.

Environmental responsibility initiatives enhance stakeholder engagement by demonstrating a firm's commitment to sustainability and environmental stewardship. When a firm invests in practices such as reducing carbon emissions, conserving resources, and implementing eco-friendly technologies, it signals to stakeholders that it is taking responsibility for its environmental impact. This commitment enhances the engagement of environmentally conscious stakeholders with the firm. For example, customers who prioritize sustainability are more likely to support and remain loyal to firms that actively engage in environmentally responsible practices. Similarly, employees who value environmental issues are often more motivated and engaged when working for a firm that aligns with their values. An effective engagement with stakeholders through environmental CSR fosters non-financial performance. When stakeholders see a firm actively addressing environmental challenges, they are more inclined to engage with and support the company, providing valuable feedback and insights. This engagement helps the firm better align its strategies with stakeholder expectations, which can lead to enhanced brand reputation, improved customer retention, and stronger community support. Accordingly, environmental responsibility initiatives not only builds trust and loyalty among stakeholders but also contribute to non-financial performance improvements. Thus, it can be expected that environmental responsibility initiatives positively influence stakeholder engagement, which in turn enhances non-financial performance. Therefore, it is hypothesized that stakeholder engagement mediates the positive effect of environmental responsibility initiatives on non-financial performance, as given by the hypothesis H3.

H3: Stakeholder engagement mediates the positive effect of environmental responsibility initiatives on non-financial performance.

***Moderating Effect of Firm Size***

From a resource-based view, smaller firms often face challenges in investing in extensive CSR programs due to limited resources and capacity constraints. This limitation can result in a weaker or even nonexistent relationship between CSR and firm performance for these smaller firms. According to dynamic capability theory, a positive CSR-performance relationship is more likely when firms possess the capabilities to effectively implement and integrate CSR initiatives into their business strategies. Smaller firms may lack these necessary capabilities, leading to a diminished or absent positive impact of CSR on performance. Further, even when smaller firms engage in CSR activities, managers may have fewer incentives to align these initiatives with shareholder interests, further weakening the observable impact of CSR on firm performance. Therefore, based on these theoretical perspectives and supporting evidence from previous research, it can be argued that firm size enhances the indirect effects of CSR initiatives on the non-financial performance through the mediation of stakeholder engagement. This leads to the following hypotheses:

H4: Firm size moderates the indirect effect of economic responsibility initiatives on the non-financial performance through the mediation of stakeholder engagement.

H5: Firm size moderates the indirect effect of social responsibility initiatives on the non-financial performance through the mediation of stakeholder engagement.

H6: Firm size moderates the indirect effect of environmental responsibility initiatives on the non-financial performance through the mediation of stakeholder engagement.

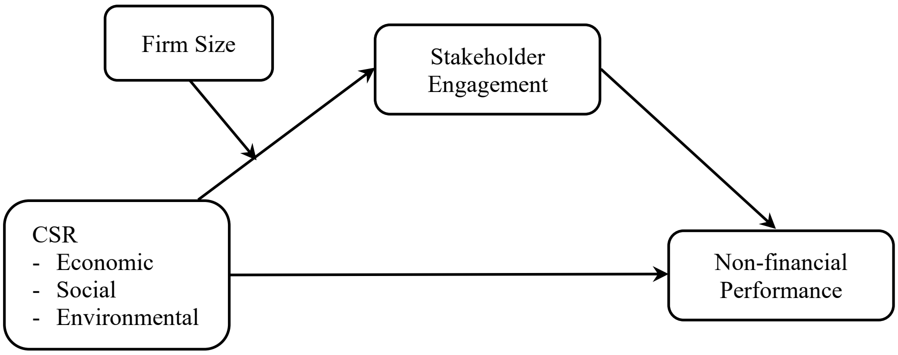


Figure 1: Conceptual Framework

## Methodology

The study employed an explanatory research design with a quantitative approach. Data was collected through a self-administered questionnaire from a sample of 382 owners/ managers of SMEs in the Anuradhapura district. The questionnaire included 8 items to gather demographic information and SME characteristics, and 23 items to measure six constructs - economic responsibilities (ECR), social responsibilities (SOR), environmental responsibilities (EVR), firm size (FSZ), non-financial performance (NFP), and stakeholder engagement (SEG). Except for firm size, all constructs were measured using multiple items on a five-point Likert scale, adapted from existing literature to ensure content validity. CSR constructs and SEG were based on scales from Choongo (2017), and non-financial performance was measured using items from Abdul & Ibrahim (2002). The questionnaire was reviewed by five experts and translated into Sinhala and Tamil, following the procedure suggested by Squires et al. (2013). A pilot study with 20 respondents further ensured its content validity. In the data analysis, reliability and validity were first confirmed. Following this, the indirect effect of each CSR construct was analyzed using the PROCESS procedure developed for SPSS (Hayes, 2018). Specifically, the PROCESS model template 7 was run separately for ECR, EVR and SOR, referring to these as models 1, 2, and 3, respectively.

## Results and Discussion

### *Respondents' characteristics*

The majority of the respondents to the questionnaire (57.1%) were men. In terms of their age, 21.0% were 18–25 years old, 51.2% were 26–35 years old, 14.1% were 36–45 years old, 8.6% were 46–55 years old, and 5.1% were older than 56 years. 46.3% of them have completed secondary education, while 27.8% hold diplomas and 8.6% have degrees. In terms of business type, 62.8% of respondents were employed in sole proprietorships, 26.7% in private companies, and the remainder in partnership businesses. Further, 31.9% of them in manufacturing, 39.8% in trading, and the rest in service businesses. Regarding monthly revenue, 41.9% were employed in SMEs earning less than Rs 250,000, while 16.8%, 25.7%, and 14.7% were in SMEs earning Rs 250,000-Rs 1,000,000, Rs 1,000,000-Rs 2,000,000, and more than Rs 2,000,000, respectively.

### *Reliability and Validity of Constructs*

Cronbach's alpha and composite reliability values were used to assess the reliability of the constructs. As presented in Table 1, these values are greater than 0.7, which confirms an adequate reliability level of the constructs. The convergent validity was confirmed by the average variance extracted (AVE) values greater than 0.5. Employing the Fornell & Larcker criterion, as given in Table 2, the discriminant validity was confirmed.

Table 1: Measurement Quality of Constructs

| Construct | Cronbach's alpha | Composite reliability | AVE |
|---|---|---|---|
| ECR | 0.898 | 0.901 | 0.832 |
| EVR | 0.937 | 0.933 | 0.892 |
| NFP | 0.984 | 0.987 | 0.878 |
| SEG | 0.922 | 0.925 | 0.822 |
| SOR | 0.945 | 0.958 | 0.903 |

Note: The cronbach's alpha and composite reliability values larger than 0.7 indicate the internal consistency reliability. The AVE value greater than 0.5 represents the convergent validity (Hair et. al, 2014).

Table 2: Fornell-Larcker Criterion Analysis for Assessing Discriminant Validity

| | ECR | EVR | NFP | SEG | SOR | FSZ |
|---|---|---|---|---|---|---|
| ECR | **0.912** | | | | | |
| EVR | 0.820 | **0.944** | | | | |
| NFP | 0.826 | 0.862 | **0.937** | | | |
| SEG | 0.820 | 0.863 | 0.886 | **0.907** | | |
| SOR | 0.821 | 0.952 | 0.861 | 0.868 | **0.950** | |
| FSZ | 0.576 | 0.486 | 0.529 | 0.549 | 0.534 | Single-item |

Note: This table presents a comparison between each construct's the square root of AVE value (as presented in bold in the diagonal) and its correlations with the other constructs for assessing the discriminant validity. A construct's discriminant validity is confirmed when its square root of AVE is larger than its correlation values with other constructs (Fornell & Larcker, 1981).

***Hypothesis Testing***

Table 3 presents the regression results for the three models, showing the effect of each construct on its corresponding endogenous variable. Table 4 shows the indirect effect of each CSR construct on non-financial performance through the mediation of stakeholder engagement. Accordingly, supporting hypotheses H1, H2 and H3, the indirect effect results indicate that stakeholder engagement mediates the positive effect of economic CSR on non-financial performance of the SMEs ($\beta = 0.317$, $p<0.01$), the positive effect of social CSR on non-financial performance of the SMEs ($\beta = 0.184$, $p<0.01$), and the positive effect of environmental CSR on non-financial performance of the SMEs ($\beta = 0.189$, $p<0.01$). Further, as Table 3 and 4 shows, the direct effects of each CSR on non-financial performance is positively significant ($p<0.01$). Thus, the stakeholder engagement has a partial mediation on the effect of economic, social and environment CSR initiatives on non-financial performance of the SMEs.

Table 3: Direct Association between CSR, SEG, FSZ and NFP

| Model | Path | Coefficient | t-statistic | p-value | $R^2$ |
|---|---|---|---|---|---|
| 1 | ECR→SEG | 0.682** | 19.389 | 0.000 | 0.716 |
| | FSZ→SEG | -0.124* | -2.397 | 0,014 | |
| | FSZ×ECR→SEG | 0.241** | 14.159 | 0.000 | |
| | SEG→NFP | 0.387** | 7.537 | 0.000 | 0.907 |
| | ECR→NFP | 0.610** | 22.322 | 0.000 | |
| 2 | EVR→SEG | 0.726** | 24.994 | 0.000 | 0.785 |
| | FSZ→SEG | 0.010 | 0.228 | 0.820 | |
| | FSZ×EVR→SEG | 0.181** | 5.574 | 0.000 | |
| | SEG→NFP | 0.387** | 7.537 | 0.000 | 0.938 |
| | EVR→NFP | 0.773** | 30.434 | 0.000 | |
| 3 | SOR→SEG | 0.757** | 26.614 | 0.000 | 0.792 |
| | FSZ→SEG | -0.084* | -1.981 | 0.048 | |
| | FSZ×SOR→SEG | 0.219** | 7.257 | 0.000 | |
| | SOR→NFP | 0.776** | 29.253 | 0.000 | 0.934 |
| | SEG→NFP | 0.387** | 7.537 | 0.000 | |

Note: ** and * indicate the significance at 1 percent level and 5 percent level respectively.

Table 4: Mediation Analysis Results

| Model | Path | Total effect | Direct effect | Indirect effect | | | |
|---|---|---|---|---|---|---|---|
| | | | | Effect | LLCI | ULCI | *t*-statistic |
| 1 | ECR→SEG→NFP | 0.926** | 0.610** | 0.317** | 0.240 | 0.409 | 7.372 |
| 2 | EVR→SEG→NFP | 0.962** | 0.773** | 0.189** | 0.117 | 0.271 | 4.846 |
| 3 | SOR→SEG→NFP | 0.961** | 0.776** | 0.184** | 0.118 | 0.264 | 4.842 |

Note: This table presents the results relating to the indirect effects of economic CSR (ECR), environment CSR (EVR) and social CSR (SOR) on non-financial performance (NFP) of SMEs through the mediation of stakeholder engagement (SEG), as hypothesized by H1, H2 and H3. ** and * indicate the significance at 1 percent level and 5 percent level respectively. The number of bootstrap samples is 5,000. The confidence intervals at lower level (LLCI) and upper level (ULCI) are given at 95%.

The significant direct effects of economic, social, and environmental CSR on non-financial performance imply that these initiatives independently contribute to the success of SMEs. It highlights the strategic value of engaging in CSR activities to SMEs. The significant indirect effects of economic, social, and environmental CSR on non-financial performance through the mediation of stakeholder engagement suggest that engaging stakeholders can effectively amplify the benefits of CSR activities. Accordingly, supporting the stakeholder theory, the results emphasize the crucial role of stakeholder engagement in enhancing the positive impact of CSR initiatives on the non-financial performance of SMEs. However, since stakeholder engagement only partially mediates the relationship between CSR initiatives and non-financial performance, it implies that there are other factors at play. While stakeholder engagement is crucial, SMEs should also consider other mechanisms and processes that contribute to the strategic value of their CSR initiatives.

Table 5: Conditional Mediation Analysis Results

| | Effect | Standard error | 95% Confidence Interval | | *t*-statistic |
|---|---|---|---|---|---|
| | | | LL | UL | |
| Panel A: Model 1 - Indirect effect of ECR on NFP through SEG conditional on FSZ | | | | | |
| Index of moderated mediation | 0.093** | 0.015 | 0.062 | 0.122 | 6.200 |
| Lower level (M -1 std) of FSZ | 0.178** | 0.048 | 0.108 | 0.292 | 3.708 |
| Mean level (M) of FSZ | 0.264** | 0.046 | 0.193 | 0.366 | 5.739 |
| Higher level (M +1 std) of FSZ | 0.349** | 0.045 | 0.271 | 0.466 | 7.756 |
| Panel B: Model 2 - Indirect effect of EVR on NFP through SEG conditional on FSZ | | | | | |
| Index of moderated mediation | 0.040** | 0.009 | 0.020 | 0.057 | 4.444 |
| Lower level (M -1 std) of FSZ | 0.121** | 0.034 | 0.069 | 0.201 | 3.559 |
| Mean level (M) of FSZ | 0.159** | 0.035 | 0.098 | 0.236 | 4.543 |
| Higher level (M +1 std) of FSZ | 0.196** | 0.037 | 0.126 | 0.274 | 5.297 |
| Panel C: Model 3 - Indirect effect of SOR on NFP through SEG conditional on FSZ | | | | | |
| Index of moderated mediation | 0.047** | 0.011 | 0.024 | 0.069 | 4.273 |
| Lower level (M -1 std) of TMS | 0.118** | 0.032 | 0.067 | 0.192 | 3.688 |
| Mean level (M) of TMS | 0.161** | 0.036 | 0.097 | 0.239 | 4.472 |
| Higher level (M +1 std) of TMS | 0.204** | 0.043 | 0.126 | 0.292 | 4.744 |

Note: This table presents the results relating to the indirect effects of economic CSR (ECR), environment CSR (EVR) and social CSR (SOR) on non-financial performance (NFP) of SMEs through the mediation of stakeholder engagement (SEG) conditional on firm size (FSZ), as hypothesized by H4, H5 and H6. ** and * indicate the significance at 1 percent level and 5 percent level respectively. “std" denotes standard deviation. The number of bootstrap samples is 5,000.

Table 5 presents the conditional mediation analysis results for testing hypotheses H3, H4 and H5. These results facilitate to examine whether firm size moderates the indirect effects of each form of CSR initiatives on non-financial performance through the mediation of stakeholder engagement. With respect to the indirect effect of economic CSR, as shown in Panel A, the index of moderated mediation is statistically significant at the 1 percent level, which therefore supports hypothesis H4. It therefore indicates that firm size moderates the indirect effect of economic CSR initiatives on non-financial performance through the mediation of stakeholder engagement. Aiken & West (1991) suggest an approach to further examine this conditional mediation effect at lower (M -1 std), mean (M), and higher (M +1 std) levels of firm size. Accordingly, as shown in Panel A, the findings indicate that the indirect effects are significantly positive across all three levels of firm size ($p<0.01$) and tend to increase as firm size increases.

Similar results can be observed in Panels B and C of Table 5 which present the results relating to the indirect effects of social CSR and environmental CSR initiatives on non-financial performance through the mediation of stakeholder engagement. The indexes of moderated mediation are statistically significant ($p>0.01$), and the indirect effects at lower, mean, and higher levels of firm size are statistically significant ($p>0.01$) and tend to increase as the firm size increase. Thus, supporting the hypotheses H5 and H6, the results reveal that firm size moderates the indirect effects of social CSR initiatives on non-financial performance through the mediation of stakeholder engagement.

These conditional mediation analysis results imply that firm size plays a significant moderating role in the relationship between CSR initiatives (economic, social, and environmental) and non-financial performance through the mediation of stakeholder engagement. This means that the size of a firm influences how strongly CSR activities impact non-financial performance through stakeholder engagement. Further, the tendency to increase the indirect effects with the increase of firm size suggests that larger firms benefit more from CSR activities, possibly due to their greater resources, capabilities, and influence in engaging stakeholders effectively. Accordingly, supporting the resource-based view and dynamic capability theory, the size of a firm influences how strongly CSR activities impact non-financial performance of the SMEs.

## Conclusions and Implications

This study aims to examine how the interaction of stakeholder engagement and firm size shapes the effect of CSR on the non-financial performance of the SMEs. The findings indicate that stakeholder engagement mediates the positive effects of economic, social, and environmental CSR on the non-financial performance of SMEs. Since the direct effects of each form of CSR on non-financial performance are also significantly positive, the results indicate a partial mediation by stakeholder engagement. This suggests that CSR initiatives enhance SMEs' non-financial performance both directly and indirectly through stakeholder engagement. Accordingly, it can be inferred that CSR activities contribute to the non-financial success of SMEs not only by their intrinsic impact but also by fostering effective stakeholder engagement. In addition, the analysis reveals that firm size moderates these indirect effects, which means that larger firms experience stronger positive impacts of CSR activities on non-financial performance through stakeholder engagement. Thus, the study shows that firm size strengthens the effectiveness of CSR initiatives, implying larger firms' ability to leverage greater resources and capabilities for more effective stakeholder engagement. In conclusion, the study emphasizes the strategic value of CSR activities for SMEs, with stakeholder engagement playing a crucial mediating role. The moderating effect of firm size concludes the need for tailored CSR strategies that account for resource availability and dynamic capabilities.

The findings of the study contribute to both theory and practice, as follows. Theoretically, these findings reinforce several key theoretical frameworks. The stakeholder theory is supported, as the results highlight the crucial role of stakeholder engagement in mediating the relationship between CSR activities and non-financial performance. Accordingly, engaging stakeholders effectively enhances the positive outcomes of CSR initiatives. The findings also support the resource-based view (RBV) and dynamic capability theory by demonstrating that firm size, representing resource availability and dynamic capabilities, moderates the impact of CSR initiatives. Larger firms, with more resources and dynamic capabilities, can engage stakeholders more effectively, thereby strengthening the benefits of CSR activities. The partial mediation by stakeholder engagement also suggests that other factors contribute to the relationship between CSR initiatives and non-financial performance, which emphasizes avenues for future research to explore additional mediators and moderators.

Practically, these insights offer valuable guidance for SMEs and policymakers. SMEs should strategically implement CSR activities, considering the importance of stakeholder engagement. By actively involving stakeholders, SMEs can maximize the positive impact of their CSR initiatives on non-financial performance. Further, since the results show a moderating effect of firm size, SMEs should involve in developing their resources and capabilities, for example innovative ways to engage stakeholders, which consequently enhances stakeholder engagement, thereby improve their non-financial performance. Moreover, SMEs should consider their size when designing CSR strategies. Large SMEs can focus on optimally using their existing resources and capabilities for more effective stakeholder engagement, while smaller firms might benefit from collaborative approaches or external support. Policymakers can play a supportive role by creating environments that encourage all firms, regardless of size, to engage in CSR activities. This could involve providing resources, training, and incentives to help SMEs develop effective stakeholder engagement strategies. By integrating these insights, SMEs can enhance their non-financial performance and contribute positively to their broader social and environmental goals as fulfilment of their responsibility towards SDGs.

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