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**The firm under the spotlight: How stakeholder scrutiny drives CSR
and reinforces financial performance**

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Abstract

Literature extensively recognizes the role of stakeholders in shaping firm corporate social responsibility (CSR) and its link with corporate firm performance (CFP). Nevertheless, stakeholder scrutiny, or the overall degree of exposition of a particular organization to different stakeholder groups, is missing in this analysis. We argue that stakeholder scrutiny reduces asymmetric information in the market for CSR and improves reciprocation between stakeholders and the firm through improved CSR signal reliability. More specifically, stakeholder scrutiny enhances CFP through two different, and simultaneous, channels. First, stakeholder scrutiny indirectly enhances CFP through its impact on CSR. Second, stakeholder scrutiny reinforces the impact of CSR on CFP. To examine the simultaneous direct and indirect effects of stakeholder scrutiny on the CSR-CFP linkage we apply. We comprehensively analyze stakeholder scrutiny at the organizational, industry, and macro levels using structural equation models. Our sample covers more than 2,200 firms across several sectors from 23 developed countries during the period 2013–2017. We find that the bidirectional information exchange between highly scrutinized firms and their stakeholders drives their CSR and reinforces its transformation into enhanced CFP. Our conclusions contribute to the stakeholder theory by showing the instrumental outcomes of external control of organizations.

Keywords

Corporate social responsibility; stakeholder scrutiny; corporate financial performance; stakeholder theory; signaling theory; game theory; asymmetric information; information economics.

INTRODUCTION

The corporate social responsibility (CSR)–corporate financial performance (CFP) link is central to the instrumental CSR literature (Carroll & Shabana, 2010; Malik 2015). Research mostly confirms the positive influence of CSR on CFP (Van Beurden & Gössling, 2008; Van der Laan et al., 2008; Zhao & Murrell, 2016). Nevertheless, an important heterogeneity among studies remains (Orlitzky et al., 2013, 2017; Wang & Choi, 2013; Wang et al., 2016). Therefore, mediators (Vishwanathan et al., 2020) and moderators (Dahlsrud, 2008; Dixon-Fowler et al., 2013), be they internal or contextual (Grewatsch & Kleindienst, 2017), can improve the understanding of the CSR-CFP relationship (Carroll & Shabana, 2015). Among the contextual factors, different theories highlight the role of stakeholders in the CSR-CFP linkage. For example, the stakeholder theory explains how stakeholders' pressure shapes CSR (Helmig et al., 2016; Brower & Mahajan, 2013; Kassinis & Vafeas, 2006; Murillo-Luna et al., 2008; O'Riordan and Fairbrass, 2014; Wolf, 2014) and how stakeholders perceive and evaluate CSR, subsequently influencing CFP (Freeman et al., 2004). In turn, the signaling theory (Spence, 1973; Stiglitz, 2000) considers that CSR influences CFP by narrowing the asymmetric information between the firm and its stakeholders through reliable CSR signals (Cho et al., 2013; Connelly et al., 2011; Zerbini, 2017).

Stakeholder scrutiny represents the overall degree of exposition of a particular organization to different stakeholder groups (Sutton & Galunic, 1995), which “reflects a cumulative, temporal, persistent aspect of external stakeholder pressure” (Pérez-Batres et al., 2012: 168). This idea links to Pfeffer and Salancik's (2003) notion of “external control of organizations,” which makes organizations resource dependent on their stakeholders. Several studies have analyzed the effect of stakeholder scrutiny on firms' CSR. For example, Brower and Mahajan (2013) explore how stakeholder scrutiny from a diverse stakeholder set shapes firms' CSR. Pelozo and Papania (2008) propose a theoretical framework suggesting that stakeholder scrutiny, along with stakeholder perception and reciprocation of firms' CSR activities, mediates the CSR-CFP link. Other authors, such as Bansal and Roth (2000), King (2008), Marquis et al. (2016), and Pérez-Batres et al. (2012), find that stakeholder scrutiny reduces greenwashing. Nevertheless, the literature has not empirically addressed the role of stakeholder scrutiny in the CSR-CFP relationship nor conceptually argued the underlying dynamics

We argue that stakeholder scrutiny narrows CSR information asymmetries between a firm (insiders) and its stakeholders (outsiders), improving the reliability of

CSR signals and the adjustment to stakeholders' demands. We build on the line of thought that considers stakeholders-firm interactions central to narrow information asymmetries (Lopatta et al., 2016; Martínez-Ferrero et al., 2016; Pérez-Batres et al., 2012). In this vein, game theory, specifically the prisoner's dilemma, constitutes a useful framework for analyzing the coordination process between the firm and its stakeholders in the market for CSR (Fairchild, 2008; Sacconi, 2006; Scalett, 2006). For stakeholders, better information improves their perception of the firm's CSR signals as a reliable sketch of underlying CSR quality. For the firm, more information on stakeholders' preferences enhances CSR quality adjusting to their demands.

We argue that the stakeholder scrutiny role in narrowing the CSR information asymmetries between the firm and its stakeholders (has important implications for its CSR and its influence on CFP) exerts a dual influence on the CSR-CFP linkage: Stakeholder scrutiny positively moderates the CSR-CFP link, enhancing firms' CSR transparency (the transparency hypothesis), and indirectly affects CFP through the firm's CSR since it enacts the adjustment of CSR responses to stakeholders' preferences (the learning hypothesis). We use SEM methodology to understand the simultaneous effects of stakeholder scrutiny on the variables of interest on a sample of 2,258 companies from 23 developed countries across several industries over five years (2013–2017). To disentangle the effects on CSR-CFP from the different sources that drive stakeholder scrutiny we adopt a multi-level analysis on organizational, industrial, and macroeconomic sources of stakeholder scrutiny. We find that the instrumental value of CSR is superior in highly scrutinized firms as compared to less scrutinized firms. This study presents a novel contribution to the literature by offering and empirically testing a conceptual rationale for the role that stakeholder scrutiny plays in shaping firms' CSR and its link with CFP. We organize the remainder of this paper as follows. The following section covers the theory and hypotheses building. A methodology section and results follow this. Finally, we discuss our findings and present the conclusions.

THEORY AND HYPOTHESES

This section first describes the information problem in the market for CSR between firms and their stakeholders. Firms send CSR signals to overcome this problem, but the signals effectiveness depends on their reliability. We explain how stakeholder scrutiny plays a determinant role in improving CSR signals' reliability and narrowing the information asymmetries in the market for CSR (for stakeholders and firms). We detail how

stakeholder scrutiny operates at macro, industry, and firm levels. Later, we argue how the reduction of information asymmetries produced by the stakeholder scrutiny exercises a critical effect on the CSR-CFP link.

CSR asymmetric information and the CSR signals reliability

One particular firm operates in diverse markets where it offers or demands goods and services. In the “market for virtue” (Vogel, 2005), the supply and demand for CSR (McWilliams & Siegel, 2001; Mackey et al., 2007) depends on the social preferences of the firm (supply-side) and stakeholders (demand-side) (Berger et al., 2007; Kitzmueller & Shimshack, 2012). The quality of a firm’s CSR offered in this market refers to its ability to fulfill stakeholders’ needs (Connelly et al., 2011). Since CSR is discretionary (Du et al., 2010), its quality can be affected by the firm’s normative or instrumental motives (Aguilera et al., 2010; Jackson & Apostolakou, 2007). A CSR grounded in normative reasons implies pursuing stakeholder demands *per se* (Scherer & Palazzo, 2007). In contrast, the *raison d’être* for instrumental or strategic CSR relies on the beneficial organizational outcomes resulting from stakeholder reciprocation (Bhattacharya & Sen, 2004; Jiraporn et al., 2014; Turban & Greening, 1997; Vishwanathan et al., 2020). Thus, a firm’s resources (and performance) will depend on the stakeholders’ demand or CSR preferences, and their subsequent reciprocation (Pfeffer & Salancik, 2003).

Incomplete information generates market failures because it restrains resource allocation (Samuelson, 1984). Information problems are also common in the market for CSR (Cho et al., 2013; Lopatta et al., 2016; Zerbini, 2017), altering the supply and demand for CSR. The asymmetric information between the firm and its stakeholders (Pérez-Batres et al., 2012) mainly emerges because firms possess private information regarding their CSR quality (Adams et al., 2001; Kulkarni, 2000), as a consequence of the lack of verifiability on whether a contingency (e.g., firm CSR effort), has occurred (Stiglitz, 1983). This information problem produces uncertainty to stakeholders who fear being exploited by the firm (Spence, 1973), thereby negatively affecting their support or reciprocation to the firm (Vishwanathan et al., 2020).

To reduce stakeholder uncertainty, the firm may mitigate the information problem by sending signals about its responsible behavior. These signals can be firm sourced (corporate communications, sustainable reports) or via intermediaries and external, reputable third parties (Doh et al., 2010), such as sustainability ratings or inclusion in sustainable indexes (Kolbel & Busch, 2019). Without CSR signals, the market for CSR

cannot virtually exist. Consequently, CSR signals may enhance market efficiency (Zerbini, 2017) by lowering information asymmetry between the firm and its stakeholders (Cho et al., 2013; Lopatta et al., 2016). Nevertheless, CSR signals as a solution to the information problem depend heavily on their reliability (Doh et al., 2010).

The CSR signal reliability stems from two factors (Connelly et al., 2011): the firm's ability to adjust the signal to the underlying CSR (signal fit) and the moral *vs.* opportunistic firm behavior (signaler honesty). Poor signal fit refers to the discrepancy between the signal and the signaler's unobservable quality due to deficient signaling (Connelly et al., 2011). In other words, CSR may not fulfill stakeholders' preferences or expectations. Regarding signaler honesty, a firm's moral behavior would imply pursuing a signal that reflects the real underlying CSR. In contrast, opportunistic behavior means sending overoptimistic, selective, or distorted CSR signals (Marquis et al., 2016). A normative CSR motivation implies no incentives for opportunistic behavior, whereas an instrumental motivation opens the possibility for opportunistic behaviors.

Towards reliable CSR signals: the role of stakeholder scrutiny

In the market for CSR, where asymmetric information exists, there are two categories of firms offering CSR: honest firms (sending reliable CSR signals) and dishonest firms (sending unreliable CSR signals). This information problem can generate the lemon effect (Akerloff, 1970), which lowers the reliability of the CSR signals for all firms to the eyes of the stakeholders. We argue that stakeholder scrutiny can palliate the lemon effect, (discouraging dishonest behaviour and) incentivizing firms to improve CSR information which enhances the CSR signal reliability to the stakeholders (demand-side) and by providing valuable information to the firm about stakeholders needs' improving the CSR fit. Consequently, stakeholder scrutiny may contribute to narrowing the asymmetric information in the CSR market. From the stakeholders' perspective, stakeholder scrutiny incentivizes more information on firms' underlying CSR through an enhanced CSR signal reliability. From the firm's perspective, a greater stakeholder scrutiny upgrades the firm's learning about stakeholders' preferences, adjusting the quality of the underlying CSR and the fit of the CSR signal. We use the prisoner's dilemma metaphor to explain the coordination process in the market for CSR between the firm and the stakeholders scrutinizing the firm, narrowing the information asymmetries. Subsequently, we explain how stakeholder scrutiny operates at macro, industry, and firm levels.

The prisoner's dilemma game helps analyze a wide range of situations (Cable & Shane, 1997), particularly firm-stakeholder relationships (Jones, 1995). The prisoner's dilemma entails a moral problem, considered as "unintended consequences of a reasonable fear of exploitation by others under the existing incentive structure" (Rogowski & Lange, 2020). This moral problem is solved using rules and institutions instead of short-term individual interests (Rogowski & Lange, 2020), facilitating firm-stakeholders coordination. The rules for achieving coordination emerge during a repeated prisoner's dilemma, integrating the social experience and the information generated over multiple interactions between the firm and its stakeholders. These rules convert the moral problem from an unintended collective self-damage to a win-win solution. Thus, the repeated prisoner's dilemma framework can make compatible moral behavior with the economic rationale of the relationships (Pajunen, 2006); for example, firms performing strategic CSR.

The prisoner's dilemma assumes "rational" individuals, making optimal decisions under situations of asymmetric information (Friedman, 1990). Firm rationality in CSR decisions involves expected returns through stakeholder reciprocation¹ (Vishwanathan et al., 2020), i.e., strategic CSR. To stakeholders, a rational decision involves the reciprocation of the firm based on CSR actions that satisfy their utility function (Brekke et al., 2003). The solution of the game (coordination), and thus the level of asymmetric information between players, depends on the number of game stages (from one to n stages). First, let us suppose a prisoner's dilemma game between the firm and one stakeholder in one stage. For the firm, to cooperate or not means choosing between a high-or a low-quality underlying or real CSR. For the stakeholder, to cooperate or not entails a decision to reciprocate or not the firm based on its CSR signal (e.g., a client buying or not buying). In this game, we assume private information about a firm's CSR quality and about stakeholder's preferences. The game leads to a non-cooperative solution by which the firm will choose a low-quality CSR, and the stakeholder will not reciprocate the firm. The stakeholder fears being exploited by the firm because the game's structure (asymmetric information) offers incentives to provide a low-quality CSR; despite the firm's promise of high-quality CSR (i.e., CSR signal), the stakeholder will not trust that signal. As a result, firm-stakeholder coordination is not possible, and two-way asymmetric information remains, as does the unreliability of the firm's CSR signal.

¹ Reciprocation means that in response to friendly behavior, stakeholders exhibit cooperation with the firm, rewarding that behavior (Bosse et al., 2009).

We can evolve this one-stage prisoner's dilemma (one firm against one stakeholder) into a repeated game between a single player (the firm) and a set of different stakeholders. A repeated game can take two forms: a two-player game repeated overtime or a game between a single player and a set of different players (Yao & Darwen, 1994). One additional stage of the game means one additional stakeholder, which intensifies stakeholder scrutiny. In each stage of the game, players decide whether to cooperate or not, considering the information revealed in the previous stages. The different iterations in the game gradually reveal information for both parties because each player can observe the other player's actions, "making reciprocity and trust critical components of the repeated prisoner's dilemma" (Cable & Shane, 1997: 146). Reputation² plays a vital role in the long-run equilibrium of the game (Kulkarni, 2000). For stakeholders, this heightened information takes the form of a firm CSR signal reputation that underpins their decisions to cooperate with the firm. For the firm, heightened information means increased learning about stakeholders' CSR preferences, which improves its CSR and CSR signals. Cooperation becomes more probable in a repeated game as the interactions between the players increase, revealing private information and allowing players to signal cooperation in a credible way (Parkhe, 1993). Each party knows that opportunistic behavior is increasingly less possible due to expectations of future interactions and reciprocation (Pruitt & Kimmel, 1977; Sahlman, 1990). Thus, a repeated prisoner's dilemma generates mutual trust for rational players (Francés-Gómez & del Rio, 2008) and makes cooperation in place of opportunism the rational strategy (Rogowski & Lange, 2020). The cooperation generated by the repeated game in a long-run setting will enhance the reliability of the firm's CSR signal; thus, stakeholders receive more incentives to trust and reciprocate the firm based on the CSR quality declared by the firm (CSR signal), and firms experience a greater incentive to fulfill stakeholders' preferences due to the expected beneficial return, thereby improving the underlying CSR quality and the signal fit. New information at each iteration is a learning step that facilitates coordination, which delves into loops of mutual reciprocation. Increased trust reduces the uncertainty for all parties in the game (Pajunen, 2006).

Using the prisoner's dilemma metaphor, we have shown that the firm's CSR signal in isolation may not be credible enough to bridge the asymmetric information

² In line with den Hond et al (2014), we consider that a firm's reputation is the aggregation of reputation with different stakeholders, regardless the potential for different reputation outcomes from each stakeholder assessment.

problem in the “market for virtue.” The CSR signal becomes more reliable as stakeholder scrutiny intensifies because stakeholder scrutiny reveals private information for all parties in the market. Stakeholder scrutiny from different stakeholders improves the CSR market efficiency. From the supply side (firms offering CSR), the game facilitates a learning process about stakeholders’ needs, resulting in improved underlying CSR quality and signal fit. From the demand side (stakeholders), the repeated game generates information on the firm’s CSR, improving the signal honesty and building a CSR-based reputation. An improved signal fit and honesty translates into CSR signal reliability, which enhances stakeholders’ reciprocation, subsequently improving CFP.

Organizational, industrial, and macroeconomic stakeholder scrutiny

Stakeholder scrutiny can manifest in different degrees of intensity stemming from different sources at the organizational, industrial, and macroeconomic levels (Orlitzky et al., 2017). Table 1 shows the firm-stakeholders information exchange across each of the stakeholder scrutiny sources. Repeated firm-stakeholders interactions drive a two-way information exchange: the firm gathers enhanced information about stakeholders’ preferences regarding CSR-improving the CSR signal fit-, and stakeholders obtain information regarding a firm’s CSR quality- thereby improving the CSR signal honesty. This process results in narrowing information asymmetries in the market for CSR through enhanced CSR signal reliability.

Organizational stakeholder scrutiny is driven by the firm scope and its influential capacity on its environment (Shabana et al., 2017). Specific factors such as firm size, listing in international indexes, and internationalization imply the interaction with a variety of stakeholders, be they suppliers, employees, investors (Gallo & Christensen, 2011; Hart & Sharma, 2004; Quéré et al., 2018), or international buyers (Gamerschlag et al., 2011), which may intensify the scrutiny.

Industry classification constitutes another stakeholder scrutiny source (Hull & Rothenberg, 2008; Orlitzky & Shen, 2013). Firms closer to the final consumer are more scrutinized than firms in the early stages of the value chain (Brower & Mahajan, 2013; Shabana et al., 2017). Besides, highly impactful environmental (oil, energy) and social (tobacco, alcohol, gambling, military, firearms) industries bear a “stigma” that attracts more attention and scrutiny from stakeholders than non-sinful firms (Yu et al., 2017).

Macro-level forces also generate stakeholder scrutiny. Enhanced civic participation through social media (Jurgens et al., 2016; Lyon & Montgomery, 2013),

NGOs (Doh & Guay, 2006), and think-tanks give rise to new modes of governance where civil society is involved. The repeated interaction between the firm and these organizations can lead to improved two-way information. Similarly, public awareness exerts significant scrutiny on a firm's behaviors through media coverage (Brammer & Millington, 2005; Shabana et al., 2017).

Table 1. Information exchange firm-stakeholders across different sources of stakeholder scrutiny

Direction of CSR information flow	Organizational Stakeholder Scrutiny	Industrial Stakeholder Scrutiny	Macroeconomic Stakeholder Scrutiny
<p>CSR information from the firm towards stakeholders</p> <p>Type of information: Firms' transparency on CSR</p>	<p>-CSR disclosure under GRI standards (<i>Pérez-Batres et al., 2012</i>).</p> <p>-Corporate codes of conduct (<i>Bondy et al., 2008; Pedersen & Andersen, 2006</i>).</p> <p>-Corporate websites (<i>Holder-Webb et al., 2009</i>)</p> <p>-CSR rankings (ie., Forbes reputation, Fortune 500) (<i>Lii & Lee, 2012; Pérez-Batres et al., 2012</i>).</p> <p>-Inclusion in sustainability stock indexes (i.e., DJSI, FTSE4good) (<i>Doh et al., 2010; Forcadell & Aracil, 2017; Robinson et al., 2011</i>)</p>	<p>-Product CSR information brochures (<i>Holder-Webb et al., 2009</i>).</p> <p>-Intra-industry CSR alliances which urge to accomplish behavioral norms and increase CSR disclosure (<i>Yu et al., 2017</i>).</p> <p>-Inter-industrial CSR alliances (<i>Dacin et al., 2007; Thorne et al., 2017</i>).</p>	<p>-Voluntary disclosure on NGOs websites (ie Carbon Disclosure Project)</p> <p>-Increased information to the media via press releases (<i>Holder-Webb et al., 2009; Zyglidopoulos et al., 2012</i>) and social media (<i>Lee et al., 2013</i>).</p>

<p>CSR information from stakeholders towards the firm</p> <p>Type of information: Stakeholders' CSR preferences and claims</p>	<p>-Sustainable responsible investors associations (ie Eurosif, CERES)</p> <p>-Institutional investor stewardship: board control (<i>Avetisyan & Ferrary, 2013; Campbell, 2006, 2007</i>).</p> <p>-Unions: framework agreements that set CSR standards (<i>González-Benito & González-Benito, 2010</i>).</p>	<p>-Civil society: collaborative (dialog) and coercive instruments (ie boycott, demonstrations) (<i>Bartley & Child, 2011; Doh & Guay, 2006; Feddersen & Gilligan, 2001; Teegen et al., 2004</i>).</p>	<p>-NGOs: disseminate awareness about CSR controversies (<i>Painter-Morland, 2006</i>).</p> <p>-Regulators: firms can learn from stringent CSR regulatory environments (<i>Marquis et al., 2016</i>).</p> <p>-Media: can serve as a CSR agenda-setting (<i>Brown & Deegan, 1998; King, 2008; Marquis et al., 2016</i>).</p>

Stakeholder scrutiny and the CSR-CFP link

We hypothesize a dual influence of stakeholder scrutiny on CFP: the learning hypothesis, which implies an indirect effect on CFP through CSR, thereby a mediating CSR effect, and the transparency hypothesis, which posits a moderated effect of stakeholder scrutiny on the CSR-CFP relationship. Thus, firms' improvements in the underlying CSR and CSR signal fit due to stakeholder scrutiny are captured by the mediating effect of CSR (in the SS -CFP link) because stakeholder scrutiny influences the quality of the underlying CSR, and subsequently, CSR influences CFP. The firm learns from the stakeholder scrutiny and incorporates this learning in its underlying CSR (improving CSR quality) and CSR signals (improving its fit). Simultaneously, stakeholder scrutiny enhances the CSR signal reliability through enhanced CSR transparency, thereby improving stakeholders' perception on the signaler honesty and thus positively moderating (or reinforcing) the CSR-CFP link.

The direct effect of stakeholder scrutiny on CSR-CFP. The increased transparency hypothesis

The literature identifies several contextual factors that moderate the CSR-CFP relationship (Wang et al., 2016). Among these, we argue that stakeholder scrutiny contributes to shaping stakeholders' perceptions of CSR signals and transform them into enhanced CFP. We have explained how stakeholder scrutiny generates information for stakeholders in the market for CSR, improving the CSR signal reliability. As a result, one can expect more reliable CSR signals from highly scrutinized firms. Subsequently, stakeholder scrutiny enhances the effectiveness of CSR signals as drivers of CFP. This argument builds on the idea that a reliable CSR signal improves a firm's reputation, stimulating stakeholder reciprocation (Vishwanathan et al., 2020). Thus, stakeholder scrutiny constitutes a facilitator in the transformative processes of the firm's CSR efforts into CFP since this process involves the stakeholder perception of firm CSR signals.

The dynamics of the repeated prisoner's dilemma generate information that enhances the reliability of the CSR signal and serves as a basis for gaining a CSR-based reputation (Dacin et al., 2007; Deegan, 2002; Deephouse & Carter, 2005; Holder-Webb et al., 2009; Pérez-Batres et al., 2012; Tetrault-Sirsly & Lamertz, 2008; Wartick, 2002). Reputation entails the expectation of future behavior based on collective perceptions of past behavior (Brammer & Pavelin, 2006; Ferguson et al., 2000; Love & Kraatz, 2009). CSR-based reputation generates some positive outcomes: signals product quality, improving customer loyalty (Boehe & Cruz, 2010; Luo & Bhattacharya, 2006; Sen & Bhattacharya, 2001; Mc Williams & Siegel, 2001); facilitates talent attraction and retention (Turban & Greening, 1997); and attracts investors (Lourenço et al., 2014) since CSR reputation serves as an early indicator of future CFP (Ioannou & Serafeim, 2015) and lower investment risks.

Signaling theory advocates that the perception of a firm's CSR signal reliability induces stakeholders' reciprocation (Vishwanathan et al., 2020). Stakeholder reciprocation entails the willingness to cooperate with the firm in various ways – for example, enhanced employee motivation, better funding conditions, removal of boycotts, or positive comments in social media, thus improving firms' CFP. Therefore, by creating value for stakeholders, the firm creates value, in line with the instrumental stakeholder theory (Clarkson, 1995; Donaldson & Preston, 1995; Henisz et al., 2014; Jones, 1995).

This discussion suggests that a more reliable CSR signal prompted by heightened stakeholder scrutiny intensifies the positive effect of CSR signals on CFP. Thus, we

propose the following hypotheses on the moderating effect of stakeholder scrutiny on CSR signals and the CFP link:

Hypothesis 1. *Stakeholder scrutiny positively moderates the relationship between CSR signals and CFP.*

Hypothesis 1.1. *Firm-level stakeholder scrutiny positively moderates the relationship between CSR signals and CFP.*

Hypothesis 1.2. *Industry-level stakeholder scrutiny positively moderates the relationship between CSR signals and CFP.*

Hypothesis 1.3. *Macro-level stakeholder scrutiny positively moderates the relationship between CSR signals and CFP.*

The indirect effect of stakeholder scrutiny on CFP through CSR. The organizational learning hypothesis

Studies framed in stakeholder theory argue that stakeholder pressure shapes a firm's CSR effort (Jamali, 2008; Lee, 2011; Helmig et al., 2016; Pérez-Batres et al., 2012) and CSR disclosure (CSR signals) (Reverte, 2009). Brower and Mahajan (2013) distinguish three sets of factors related to stakeholders influencing CSR: sensitivity to stakeholder demands, diversity of stakeholder demands, and exposure to stakeholder scrutiny. In addition to this strand of literature, some studies consider CSR as a mediator between CFP and different variables related to specific stakeholders, i.e., customer and market orientation (Kiessling, 2016), board diversity (Harjoto et al., 2015; Galbreath, 2018; Liu et al., 2020), CEO characteristics (García-Sánchez et al., 2020; Yook & Lee, 2020), customer satisfaction (Saeidi et al., 2015), or stakeholder management capability (Torugsa et al., 2012).

We argue that CSR mediates stakeholder scrutiny and CFP. We have explained earlier how stakeholder scrutiny delivers information to the firm about stakeholders' CSR utility function. Firms can use this information on stakeholders' preferences to improve their underlying CSR and the CSR signal fit. Firms can generate these improvements through knowledge-based complementary resources that increase CSR heterogeneity, which further enhances CFP. CSR heterogeneity refers to the differences among firms in their responsible behavior and the capacity to satisfy stakeholders, as supported by the resource-based view (Brammer & Pavelin, 2006; McWilliams & Siegel, 2011; Orlitzky et al., 2003; Surroca et al., 2010). CSR heterogeneity arises through the interplay with

complementary resources (Forcadell et al., 2018). The complementary resources to the firm's CSR ("the organizations' knowledge, skills, and processes relating to the planning, implementation, and evaluations of CSR activity"; Lee et al., 2013: 1718) are knowledge-based, built "from complex interaction relationships of various social groups" (Moldaschl & Fisher, 2004: 130). This knowledge, accumulated through successive interactions with stakeholders (Barnett, 2007; Tang et al., 2012), underlies CSR path-dependency (Tetrault-Sirsly Lamertz, 2008). Stakeholder interactions consequence of stakeholder scrutiny contributes to the generation of heterogeneous CSR through absorptive capability, social capital, and economies of scope.

Stakeholder scrutiny generates knowledge that potentiates the different dimensions of a firm's absorptive capability (Lane & Lubatkin, 1998): acquisition, assimilation, transformation, and exploitation (Zahra & George, 2002). Firms facing greater stakeholder scrutiny can better detect market signals on what types of CSR are more aligned with stakeholders' demands. Thus, CSR implemented in this realm is more likely to be reciprocated by stakeholders. In contrast, less scrutinized firms have less chance to learn from the interaction with the different stakeholders. Therefore, they may engage in less valuable CSR initiatives from a stakeholder perspective, thus less "effective" CSR from a financial payoff perspective³.

Successive firm-stakeholder interactions contribute to creating social capital (Maak, 2007), which improves influence capacity on stakeholders (Barnett, 2007). CSR signals perceived by stakeholders as reliable build social capital, which influences stakeholders' reciprocation (Henisz et al., 2014). Social capital relies on trust, confidence, and commitment (Moldaschl & Fisher, 2004) within a network of actors. Therefore, the enhanced information created by stakeholder scrutiny serves as a basis for social capital creation and subsequent reciprocity. This idea fits with the instrumental stakeholder theory, which advocates that firms address the needs of a wide variety of stakeholders as a means of building social capital that influences their behavior (reciprocate) and creates value for the firm (Freeman et al., 2020; Henisz et al., 2014; Zingales, 2000).

Companies addressing multiple and different stakeholders' claims can benefit from economies of scope (Teece, 1980) by sharing resources among various CSR activities. A particular CSR action can simultaneously affect the multiplicity of stakeholders (Sen et al., 2006). Thus, firms can apply actions toward a specific issue of a

³ We acknowledge this reasoning to one of the anonymous reviewers.

given stakeholder group to other issues and stakeholders (Bosse et al., 2009; Shabana et al., 2017). A CSR reputation contributes to achieving legitimacy or a “license to operate” (Peloza, 2006) toward different stakeholder groups, market segments, or geographies (thus overcoming foreignness liability). The convergent CSR view (Jamali, 2010; Waddock, 2008) holds that multinational firms replicate in their subsidiaries the CSR implemented at headquarters. In this realm, companies may profit from economies of scope once a particular action has been designed and developed at headquarters and disseminated across countries.

Therefore, complementary resources contribute to heterogeneous CSR. CFP is primarily attributable to heterogeneous resource endowments (Barney, 1991; Maritan & Peteraf, 2011; Peteraf, 1993). CSR heterogeneity allows the differentiation of products from competitors (Torugsa et al., 2012), increase employee morale and productivity, and improve attitudes in the workplace (Turban & Greening, 1997; Wright et al., 2001), cost savings and enhanced turnover associated with environmental innovations (Hart, 1995; Rousso & Fouts, 1997), and better evaluation of product quality by customers (McWilliams & Siegel, 2001). This discussion suggests that stakeholder scrutiny generates complementary resources that contribute to increasing CSR heterogeneity, constituting a forerunner of CFP. Thus, we propose the following hypotheses regarding the direct effect of stakeholder scrutiny on firm CSR and its indirect impact on CFP:

Hypothesis 2. *The CSR signal mediates the effect of stakeholder scrutiny on the CFP. Stakeholder scrutiny positively impacts CSR quality signals, and CSR signals positively impact CFP.*

Hypothesis 2.1. *The CSR signal mediates the effect of firm-level stakeholder scrutiny on the CFP.*

Hypothesis 2.2. *The CSR signal mediates the effect of industry-level stakeholder scrutiny on the CFP.*

Hypothesis 2.3. *The CSR signal mediates the effect of macro-level stakeholder scrutiny on the CFP.*

METHODS

Sample

Our sample includes listed companies from developed countries with CSR evaluation by Thomson Reuters ASSET4. The sample consists of all sectors except financial firms

(Berrone et al., 2017; Boutin et al., 2013). In order to rule out abnormal data, all our variables were winsorized at the 99th percentile. The sample comprises 14,905 firm-year observations from 2,258 individual companies from 23 developed countries across different sectors (Table 2) over a five-year period (2013-2017). We gather economic and financial information sourced from DataStream (Thomson Reuters ASSET4).

Table 2 about here

Variables

Our dependent variable is the firm's CFP, measured by the natural logarithm of return on average assets (ROAA) (*Performance*) (Aupperle et al., 1985; Hull & Rothenberg, 2008; Platonova et al., 2018; Wiengarten et al., 2017). ROAA measures the ability to extract a profit from a firm's assets, calculated as the ratio of net income to total average assets. As a response to studies that suggest that the heterogeneity in CSR-CFP analyses relies, among other factors, in the CFP measurement (Griffin & Mahon, 1997; Lu et al., 2014; McGuire et al., 1988), we use for robustness purposes net income (*Net Income*) and Tobin's Q (*Tobin Q*). While both ROAA and net income are accounting-based measures representing short-term profitability (Cochran & Wood, 1984; Hull & Rothenberg, 2008), Tobin's Q is a market-based measure that represents market expectations of future firm performance (Inoue & Lee, 2011; Luo & Bhattacharya, 2006). Our independent variable (*CSR*) is drawn from the ESG scores from the Thomson Reuters ASSET4 database (Brogi & Lagasio, 2019; Cheng et al., 2014; Dell'Atti et al., 2017; Jackson et al., 2020; Shaukat et al., 2016). The ESG annual score provides a single, continuous measure, scaled 1–100, of firms' relative management of ESG issues across 10 main themes, which comprise 178 critical measures and 400 data points. To provide further granularity on the CSR-CFP relationship, we decompose CSR into its underlying pillars, also provided by Thomson Reuters Asset 4 (Dyck et al., 2018; Karyawati et al., 2020): Environmental CSR (*ENV*), which deals with green management; Social CSR (*SOC*), which pertains to ethics and firms' social practices, whereas Governance CSR (*GOV*) relates to transparency and ethical management (Orlitzky et al., 2003).

Our variable of interest, stakeholder scrutiny, is proxied through different variables pertaining to three levels: firm (size, degree of internationalization, membership to a global benchmark), industry (consumer-oriented sectors, controversial industries),

and macroeconomic level (pressures from civil society and the degree of the home country's globalization). This allows us to unpack the effect of scrutiny from different sources and compare their relative effects on the CSR-CFP linkage.

At the firm level, size is an important precursor of stakeholder scrutiny (Lourenço et al., 2012). Large firms have greater social and environmental impacts and are more exposed to media and NGOs (Brammer & Millington, 2004; Thijssens et al., 2015), employees tend to be more organized within unions, and because they require a large amount of funding, investors heavily scrutinize their behavior (González-Benito & González-Benito, 2010). Company size (*Size*) is measured by the natural logarithm of a firm's total assets (Brammer & Pavelin, 2006; Brower & Mahajan, 2013; Marquis et al., 2016). Along with company size, a firm's internationalization affects its level of scrutiny, due to a greater diversity and multiple global and local stakeholders (Barnett & Salomon, 2006; Chapple & Moon, 2005; Holmström, 1998; Husted, 2000; Scherer et al., 2013; Williams & Lee, 2016). Firm's internationalization (*International*) is valued as one for companies selling abroad and zero otherwise (Brower & Mahajan, 2013). Moreover, publicly listed firms receive greater scrutiny than private firms from individual and institutional investors, that is, shareholder activism (Dixon-Fowler et al., 2013). This scrutiny is even more intense for firms listed on large stock indexes, which require more transparency about a company's accounting policies, boards, management, and ownership structures (Khanna et al., 2004). Membership to a global benchmark is proxied by the membership of the Morgan Stanley Capital International World Index (*MSCI*) valued one for companies included in the index during the period considered, and zero otherwise (Covrig et al., 2007).

As refers to industry-level scrutiny, diverse stakeholders subject firms in different sectors to enhanced pressure (Berman et al., 1999; Brammer & Pavelin, 2006). In particular, business to consumer industries receive greater stakeholder scrutiny than firms that provide intermediate inputs that are more difficult to identify (Brower & Mahajan, 2013; González-Benito & González-Benito, 2010). Belonging to consumer-oriented sectors is measured by the variable *Consumer*, which takes the value of one for cyclical consumer goods and services industries, and zero otherwise (Brower & Mahajan, 2013). In addition, sinful or controversial industries are heavily scrutinized on fears of window-dressing or greenwashing concerns (Cai et al., 2011; Reverte, 2009). Being part of controversial sectors is measured by the variable *Controversial*, which takes the value of one for distillers and vintners, conventional electricity, defense, and tobacco, and zero

otherwise (Drempetic et al., 2020). These industries were identified using the Thomson Reuters Business Classification.

Stakeholder scrutiny sourced at the macro level is rooted on the ability of civil society to mobilize and influence corporate behavior and a country's exposure to global norms (den Hond and Bakker, 2007; Marquis et al., 2016). The growing presence of NGOs has increased the level of scrutiny of social and environmental standards (Doh & Guay, 2006; Teegen et al., 2004). This is proxied by the prominence of NGOs in a given country (*NGO*) as a portion of the total number of NGOs per million population (Esty et al., 2005; Marquis et al., 2016), sourced from the UN and World Bank databases. In addition, a global environment creates new and diverse demands because society is more connected to global practices, norms, and ideas (Brower & Mahajan, 2013), which raises stakeholders' expectations about firms' behavior and drives their scrutiny (Christman & Taylor, 2002; Guler et al., 2002; Sethi, 2003). The KOF Globalization Index (*KOF*) proxies the degree of openness of a society (Fisher, 2008; Marquis et al., 2016). Developed by Dreher (2006) and widely used in the literature (Potrafke, 2015), the KOF index calculates the integration between its 208 country constituents on social, economic, and political aspects. It measures flows of information, contact, trade, investment, and the number of foreign embassies, among other items.

To test the intensity of stakeholder scrutiny at the different Stakeholder Scrutiny levels, we build the variables: *SS Intensity Firm*, *SS Intensity Industry*, and *SS Intensity Macro*. Each of them counts the sources of stakeholder scrutiny at the respective levels; thus, *SS Intensity Firm* ranges from 0 to 3, *SS Intensity Industry* is valued 0 to 2, and *SS Intensity Macro* takes the values 0 to 2. To measure the aggregated intensity of stakeholder scrutiny we introduce the variable Stakeholder Intensity (*SS Intensity*), which ranges from 0 (no stakeholder scrutiny) to 7 (Stakeholder scrutiny emanated from all the seven sources described above). As a result, we measure Stakeholder Scrutiny source by source and also from an aggregated perspective. We apply a hierarchical system which builds on the seven sources of stakeholder scrutiny as base variables. These are further aggregated on levels of stakeholder scrutiny, to depict SS Intensity on Organizational (0-3), Industry (0-2) and Macro (0-2) levels. One step further, we build an aggregated variable that shows overall SS Intensity, ranging 0-7.

We lag our main independent variables one year under the assumption that firm CSR and stakeholder scrutiny may affect firms' performance over a deferred time (Jo & Harjoto, 2011; Van Burden & Gössling, 2008). The moderating effect of stakeholder

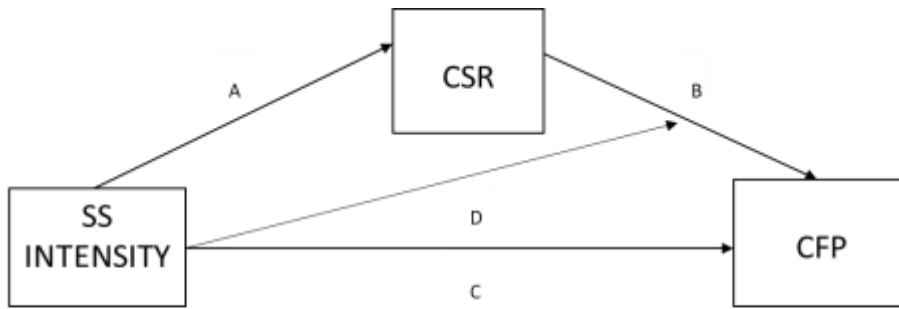
scrutiny sources on the relationship between *CSR* and *Performance* is proxied by the covariation between *CSR* and different stakeholder scrutiny variables. To analyze the moderating effect at each level, we elaborate on the following interaction variables: *CSR*SS Intensity Firm*; *CSR*SS Intensity Industry*, and *CSR*SS Intensity Macro*. To test the overall effect of stakeholder scrutiny on the CSR-CFP strength, we covariate *CSR*SS Intensity*.

We use some control variables. The beta coefficient (*Beta*) measures systematic risk based on a firm's stock volatility related to the market (Levy, 1974). We adopt the natural logarithm of the beta coefficient as a proxy for risk (Chollet & Sandwidi, 2018). Financial leverage provides information about a firm's ability to satisfy its financing obligations (Afiff & Anantadjaya, 2013). We use the natural logarithm of the percentage of total debt over total assets (*Leverage*). Macroeconomic controls include GDP growth (*GDP growth*) (Lattemann et al., 2009). Finally, we include a dummy variable (*Stakeholder country*) to control for the orientation of the home country to maximize stakeholder satisfaction as opposed to shareholder wealth, valued as one and zero, respectively (Simnett et al, 2009; Thijssens et al., 2015). The former cluster includes continental European countries, Korea, and Singapore (Forcadell et al., 2020; Thijssens et al., 2015), and the latter consists of the remaining countries in our sample.

Statistical procedures

We are working in a situation in which the independent variable (Stakeholder Scrutiny) is also the moderator variable, which influences the relationship between the mediator (CSR) and the dependent variable (CFP) (Figure 1). This requires a model that integrates moderation and mediation effects, ie a moderated mediated model or conditional indirect effects model (Hayes, 2013; Langfred, 2004; Muller et al, 2005).

Figure 1. A moderated-mediated model for stakeholder scrutiny effects on the transferability of CSR into CFP



A , B, C. The learning hypothesis
 D. The transparency hypothesis

To test the moderation and mediation effects suggested by Hypotheses 1 and 2 respectively, we use the structural equation model (SEM) methodology (Russel et al., 1998)⁴. Our mediator variable is CSR, that is a variable that sits between the stakeholder scrutiny (independent variable) and the CFP, i.e. ROAA (dependent variable), such that some of the effect of the stakeholder scrutiny on the ROAA passes through the CSR. The latter process just described is known as the indirect effect. In addition, in our analysis we have a moderator variable, stakeholder scrutiny, which is a variable included in the interaction with CSR such that the effect of the CSR depends upon the value of the stakeholder scrutiny, i.e., the effect of the CSR changes depending on the value of stakeholder scrutiny. Finally, our paper analyzes also the moderated mediation. This latter occurs when stakeholder scrutiny (moderator) interacts with CSR (mediator) such that the value of the indirect effect changes depending on the value of stakeholder scrutiny. This is known as a conditional indirect effect, i.e., the value of the indirect effect is conditional on the value of the moderator variable (Walker & McKinney, 2015; Stearns & McKinney, 2017). The SEM methodology allows to simultaneously test the direct effects of stakeholder scrutiny on CFP (C), its indirect (mediating) effects through CSR (A and B) and the moderation that SS exerts on CSR-CFP (D). The former (A, B) tests the learning hypothesis (mediation) and the later (D) verifies the transparency hypothesis (moderation). The SEM, a maximum likelihood estimation method, is parametric in nature (Iwamoto & Suzuki, 2019). SEM is commonly used in business discipline to

⁴ Another methodology typically used in social sciences to estimate mediation is the one proposed by Baron & Kenny (1986). However, we chose SEM following several studies that argue that SEM dominate the “causal steps” approach of Baron and Kenny (1986) (Iacobucci, 2008) for some reasons: SEM is useful to frame and answer increasingly complex questions about data (Amoako, 2017), and SEM is able to estimate simultaneously instead of assuming that equations one to three are independent (Smith, 2004; Zhao et al., 2010).

demonstrate the relationship between different variables (Hult & Kacmar, 2004; Shook et al., 2012). Using SEM is more advantageous than other techniques for several reasons (Cenfetelli & Bassellier, 2009). First, SEM can run simultaneously several multiple regression equations. Second, SEM has a number of benefits over multiple regression in that it recognizes interdependence among variables in a model allowing a dependent variable in one multiple regression to become an independent variable in a subsequent equation (Hair et al., 1998; Singh & Verma, 2018). Finally, using SEM ensures to apply the technique of bootstrapping to test conditional indirect effects (Shrout & Bolger, 2002). We apply a conditional indirect effect procedure to check the conditional role of stakeholder scrutiny on the mediation relationship. First, we run our models using the overall measure of stakeholder scrutiny intensity, and then we run additional separate models using stakeholder scrutiny intensity at Organizational, Industry and Macro levels to disentangle the different effects of stakeholder scrutiny sourced at different levels. To estimate the conditional indirect effect we used a bootstrap analysis (MacKinnon et al., 2002; Preacher et al., 2007; Hayes, 2013)⁵.

RESULTS

Tables 3 and 4 show the descriptive statistics and the Pearson's correlation matrix, respectively. Table 4 shows no correlations exceeding the 0,4 threshold, indicating very little evidence of substantial multicollinearity concerns. Nevertheless, to further test for potential multicollinearity, we have conducted variance inflation factor (VIF) tests for all regression models. We obtain a VIF range between 1.26 and 2.84, which is well below the critical value of 10, which indicates multicollinearity (Hair et al., 2006; Schreck, 2011)⁶.

Tables 3 and 4 about here

⁵ Bootstrapping is used mainly because the bias-corrected confidence intervals are nonsymmetric and adequately reflect the non-normal sampling distributions of the conditional indirect influences (Hayes, 2017; Hu et al., 2020). With the bootstrap technique, we can obtain a better statistical power since it minimizes the likelihood of Type 1 error (Preacher & Hayes, 2008). The bootstrap analysis is a resampling strategy with a non normal assumption that reconstructs the distribution of the population via a number of iterating processes of the resampling (Zhao et al., 2010; Yim et al., 2019).

⁶ The results are available under request.

The results in Table 5 show a positive and significant direct impact of SS Intensity on CSR and on CFP (0.276; 0.227; paths A and C respectively). Table 5 also shows that CSR exerts a positive and significant effect on CFP, path B. The indirect effect of SS Intensity on CFP via/passing through CSR is 0,056, that is calculated by multiplying the coefficient of SS Intensity (0.276, path A) and the CSR coefficient (0.206, path B). The total effect, which is given by the sum between the indirect effect and the "path C", is equal to 0.283. The proportion of total effect mediated, indirect effect divided by total effect, is equals to 0.20. This indicates that the relationship between SS Intensity and CFP is partially mediated by CSR. These findings support hypothesis 2 (*the learning hypothesis*). The moderation term (SS Intensity*CSR) shows a positive and significant effect on CFP (0.246). The results on table 5 are significant at the 1% level. We checked the goodness of fit for all SEM models including the likelihood-ratio test (LR-test), Tucker-Lewis coefficient (TLI), (Tucker & Lewis, 1973) and Comparative fit index (CFI), Root mean square error of approximation (RMSEA) (Steiger & Lind, 1980), and the coefficient of determination (R^2). All our models meet the conditions associated to each test: for the CFI and TLI, values greater than 0.90 were indicative of good fit, and for the RMSEA, values less than 0.08 were considered a good fit (Marsh et al., 2004; Brown, 2015).

Table 5 about here

To examine hypothesis 1 (*the transparency hypothesis*), i.e. the moderated mediation shown in path D, we need to test a conditional indirect effect, where the value of the indirect effect (path B) is conditional on the value of the moderator variable (SS Scrutiny). That is, SS Scrutiny interacts with the mediator variable (CSR) such that the value of the indirect effect (path B) changes depending on the value of the moderator variable (SS Scrutiny). To do so, we follow the procedure proposed by Hayes (2013, 2017) to estimate the indirect effect with 5,000-resample bootstrapping (Table 6).

Table 6 about here

Table 6 shows different values of the moderator variable stakeholder scrutiny and confirm that the conditional indirect effect on CFP via CSR is positively related to the moderator variable Stakeholder Scrutiny. This confirms hypothesis 1 (*the transparency hypothesis*).

To disentangle the effects of the different stakeholder scrutiny levels, we run the same models using SS Intensity Firm (models 2a and 2b, tables 7 & 8), SS Intensity Industry (models 3a and 3b, tables 9 & 10) and SS Intensity Macro (models 4a and 4b, tables 11 & 12). These results confirm prior findings and provide further support to our hypotheses when stakeholder scrutiny is considered at its different levels of origination, ie, at a firm, industry and macro level. However, the findings yield interesting implications on which level of stakeholder scrutiny is more effective in the mediation, moderation and moderated-mediation relationships. To identify the relative effects across the different stakeholder scrutiny forces influencing the transferability of CSR to CFP, we use standardized coefficients that allow direct comparisons.

As regards to the strength of the moderated-mediation of each level of stakeholder scrutiny, the strongest conditional effects are found when stakeholder scrutiny at a firm level is considered (table 8). These effects weaken in the case of stakeholder scrutiny at industry level (table 10), whereas stakeholder scrutiny at a macro level (table 12) shows a further weaker conditional indirect effects, although still positive and statistically significant. This suggests that, although every level of stakeholder scrutiny intensity exerts conditional indirect effect, when this scrutiny is decomposed of its different sources stakeholder scrutiny emanated on firm sources is the most relevant. This may be due to the fact that industry and macro factors underlying stakeholder scrutiny may be common to different groups of firm, whereas firm factors show idiosyncratic firm sources of stakeholder scrutiny, that may weight more on the learning and transparency process that emerges from the game. These findings provide granularity on the different stakeholder scrutiny forces that are at play in the CSR-CFP relationships.

Tables 7 to 12 about here

CSR can be resolved into environmental (*ENV*), social (*SOC*), and governance (*GOV*) dimensions. We test our models for each of these pillars (models 5, 6, 7 x (Table 13, 15, 17x) and their conditional effects (tables 14, 16, 18) to allow comparisons of the stakeholder scrutiny effect on the CSR-performance nexus across the different CSR

pillars. We build different models using the variable *SS Intensity* and the variables *SS Intensity Firm*, *Industry* and *Macro*, respectively. Similar to earlier models we use standardized coefficients to compare the magnitude effects on CFP derived from stakeholder scrutiny at each CSR dimension.

The results for the moderated-mediation (Tables 14, 16, 18) show that there is a conditional indirect effect of *SS* on the linkage CSR-CFP for each of the CSR pillars considered. When the different CSR pillars are compared, we find that overall *SS* intensity and *SS* intensity sourced at firm level exerts the greatest effect on the Social dimension of CSR. That is, these types of scrutiny allow greater learning and transparency improvements in the Social CSR pillar as compared to the environmental or governance pillars. In contrast, stakeholder scrutiny sourced on industry or macro levels exert a larger impact on the environmental dimension of CSR. This could rest on the fact that the scrutiny based on industry or overall macro factors seek improvements on environmental metrics ahead of other CSR dimensions since environment is the pillar that holds the largest advancement globally as compared to social or environmental (buscar cites de esto). We argue that this is due to the lower institutionalization of CSR environmental and social domains vs the governance, which enhances the relevance of stakeholder scrutiny as a signaling mechanism to improve information in the CSR market. In environmental and social domains. However, a more institutionalized governance CSR domains mean that there are standards to convey information to the market in this area, and thus, the role of stakeholder scrutiny is less crucial.

To rule out endogeneity bias stemming from reverse causality between CSR and CFP, we estimate two different models: a two-stage least square (2SLS) model and a SEM using CFP (*ROAA*) as a dependent variable (El Ghoul et al., 2011; Benlemlih, 2019) (Table 19). The 2SLS estimation procedure consists of a two-step regression (Models 8a and 8b). In the first step, we regress *CSR* on our two instruments and control variables. In the second step, we regress *ROAA* on the predicted *CSR* value and control variables. The results show that the relationship between CSR and CFP is positive and statistically significant, thus providing robustness to our previous findings. The basic requirement for the validity of an instrument is that it should have no effect on the dependent variable (*ROAA*) other than through its effect on the suspected endogenous variable (*CSR*) (Bhandari & Javakhadze, 2017). Our two instruments meet these requirements: industry-year averages of the overall CSR score (*CSR Country*) and a dummy variable for whether

the previous year's earnings are negative (*Loss*) value one if the previous year's earnings are negative and zero otherwise (Attig et al., 2013; Benlemlih, 2019; El Ghouli et al., 2011). The results in Table 19, 2SLS model, highlight that our instruments are relevant, and our specifications do not suffer from weak instrument concerns. The Cragg-Donald Wald F statistic ($F = 45.793$) is greater than the available penultimate critical value. Thus, we can reject the null hypothesis that the instruments are weak. Finally, the endogeneity test in Table 19 shows that our instrumental variable (*CSR*) is an endogenous variable.

Tables 13 to 19 about here

DISCUSSION AND CONCLUSIONS

Our empirical results from a panel of 2,258 firms for five years confirm that stakeholder scrutiny shapes CSR and its effect on CFP. These results are robust to different measures of CFP and different CSR pillars and are consistent across the different stakeholder scrutiny levels (organizational, industry, and macro). These findings confirm our argument that stakeholder scrutiny constitutes a significant underpinning force that generates information for the firm and its stakeholders. Nevertheless, we also find that the institutionalization of CSR practices can partially substitute the coordination role of stakeholder scrutiny. Overall, this study extends the literature on the CSR-CFP relationship by analyzing stakeholder pressure as a determinant factor behind the instrumental value of CSR (Carroll & Shabana, 2010). In particular, our results show a positive impact of CSR on CFP, in line with previous literature (Orlitzky et al., 2003). We confirm earlier evidence showing that the CSR-CFP relationship is not simple and straightforward (Grewatsch & Kleindienst, 2017; Wang & Choi, 2013). We combine disjointed literature traditionally focused either on moderation (Tang et al., 2012; Wang et al., 2016) or on mediation (Kang et al., 2016; Surroca et al., 2010; Vishwanathan et al., 2020) effects, particularly regarding the role of stakeholders, by simultaneously proposing moderating and mediating hypotheses.

This study advances the understanding of the complex role of stakeholder scrutiny in the CSR-CFP relationship. Stakeholder scrutiny contributes to reducing information asymmetries between the firm and its stakeholders regarding CSR: stakeholders gain information on the firm's CSR quality, and the firm obtains information on stakeholder

preferences. This two-sided reduction in information asymmetry generates a double effect on the CSR-CFP link. First, stakeholder scrutiny moderates the influence of CSR on CFP, strengthening such a relationship under heightened stakeholder scrutiny. The moderating effect of stakeholder scrutiny captures wider information availability for stakeholders in the form of a more reliable CSR signal. The improvement in CSR signal reliability raises its effectiveness in improving firm CFP. Second, the mediating effect evidences the indirect impact of stakeholder scrutiny on CFP channeled through CSR. Stakeholder scrutiny propitiates the firm's learning on stakeholders' preferences and necessities, which improves CSR fit and further improves CFP. Consequently, stakeholder scrutiny can influence stakeholders' perceptions of firm CSR (i.e., moderates the CSR-CFP link) and the firm's CSR actions (i.e., influences CFP through CSR). The literature on CSR-CFP has not previously considered this dualism, thereby, we disentangle the mechanisms through which CSR can be transferred to CFP.

Our study extends the literature by analyzing the influence of stakeholder pressure on firms' CSR (e.g., Brammer & Millington, 2004; Helmig et al., 2016; Hyatt & Berente, 2017; Kassinis & Vafeas, 2006; Lee et al., 2018; Murillo-Luna et al., 2008; O'Riordan & Fairbrass, 2014). For example, we disentangle the effect of stakeholder scrutiny into levels, in line with Brower and Mahajan (2013). They split it into the diversity of stakeholder demands and exposure to stakeholder scrutiny but add the mediator effect of CSR between stakeholder scrutiny and CFP. Wolf (2014) considers both moderating and mediating effects in analyzing stakeholder pressure on firms' CSR. We also consider these effects but add the influence of stakeholder scrutiny on CFP. Besides, our results are in line with the theoretical model of Pelozo and Papania (2008), confirming that firms' CSR impacts stakeholder perceptions, which are transferable to CFP. Nonetheless, we extend their framework by empirically showing the effect of stakeholder scrutiny exercises in shaping firms' CSR, which opens another channel of influence of stakeholder scrutiny on CFP through CSR. Helmig et al. (2016) find that CSR mediates stakeholder pressure and market performance. We extend this study by offering evidence for a sample of international firms from different industries and geographies, analyzing stakeholder scrutiny emanating from several sources. We show that stakeholder scrutiny not only pushes firm CSR, generating a mediating effect but also moderates the CSR-CFP link. This double effect is a relevant finding because it indicates that stakeholder pressure affects both firms performing CSR and the collectivity of stakeholders interacting with the firm.

Game theory, precisely the prisoner's dilemma, has been increasingly applied to the ethics and CSR domains (e.g., Gilbert, 1996; Hosseini-Motlagh et al., 2020; Khosroshahi et al., 2018; Kulkarni, 2000; Pajunen, 2006; Rogowski & Lange, 2020; Raj et al., 2018; Sacconi, 2006, 2007; Solomon, 1999). In particular, our study contributes to this strand of literature, showing how the repeated interaction between the firm and its stakeholders can narrow the information asymmetries and allow coordination in the market for CSR. To the best of our knowledge, this study is the first attempt to apply the repeated prisoner repeated game to understand the dynamics of coordination among firm and stakeholders regarding CSR. The interplay between the firm and its stakeholders that emerge from the use of the iterated prisoner's dilemma generates the necessary stakeholders' trust in the CSR signals and the firm's learning process to improve its CSR. Although instrumental stakeholder theory (Clarkson, 1995; Jones, 1995) emphasizes the role of stakeholders in CSR engagement, most studies focus on the management of stakeholders rather than on the two-way conversation between stakeholders and the firm (Goodstein & Wicks, 2007). Few empirical studies (Brower & Mahajan, 2016; Helmig et al., 2016; Orlitzky et al., 2017) have analyzed how stakeholders may drive different CSR responses. Furthermore, even though those analyses are comprehensive, they fail to conceptually and empirically support the bidirectional firm-stakeholders conversation. This bidirectional approach of stakeholder scrutiny in business ethics is paramount because it gives rise to sustainable value co-creation (Sulkowski et al., 2018).

We have found that stakeholder scrutiny emanates from different levels (firm, industry, and macro) influences CSR and CFP at different intensities. In particular, our results show that the highest variance in CSR is explained by firm-level stakeholder scrutiny, with industry or macroeconomic sources of stakeholder scrutiny yielding a weaker role in driving CSR, in line with Orlitzky et al. (2017). Our findings also show that firm-level scrutiny yields a higher impact of CSR on CFP. Firm-level stakeholder scrutiny captures the impact of primary stakeholders on the firm, who possess a real claim or real interest (Clarkson 1995). Nevertheless, macro-level stakeholders can represent indirect interests in defending primary stakeholders' interests (Fassin, 2010).

This study has two main limitations that deserve attention in further research. First, our different measures of stakeholder scrutiny do not allow the differentiation of various stakeholder groups according to their salience for the company (Mitchell et al., 1997), their degree of influence on firms' decisions, and their potentially conflicting demands (Zyglidopoulos et al., 2011). Second, since we did not perform an event risk

study, we cannot detect negative consequences on CFP from damaging events to test whether downside risk is more considerable for highly scrutinized firms. Finally, building on previous studies that empirically approach the notion of stakeholder scrutiny (Berrone et al., 2017; Brower & Mahajan, 2013; Kim & Lyon, 2015; Marquis et al., 2016), we combine different dimensions that determine the intensity of stakeholder scrutiny. More research is needed to develop our understanding of stakeholder scrutiny further, consider more dimensions of scrutiny, and analyze stakeholder scrutiny in other contexts, such as developing countries, where institutional reality differs from developed countries.

Table 2. Sample distribution across geographic areas and sectors

Geographic area	Firms	Sector	Firms
Asia	667	Energy	545
Europa	1150	Basic Materials	675
Oceania	507	Industrials	1,163
North America	3,438	Cyclical Consumer Goods & Services	1,165
		Non-Cyclical Consumer Goods & Services	462
		Healthcare	646
		Technology	697
		Telecommunication Services	152
		Utilities	257
Total	5,762	Total	5,762

Table 3. Descriptive statistics

Variables	Obs	Mean	SD	Min	Max
<i>ROAA</i>	13,308	4.575	2.406	-4.102	1.819
<i>Tobin's Q</i>	13,437	1.420	2.289	0	15.382
<i>Net Income</i>	10,852	12.305	1.603	3.970	18.408
<i>CSR</i>	14,513	53.298	12.590	20.2	87.7
<i>ENV</i>	14,904	53.318	19.259	17.8	95.6
<i>SOC</i>	14,904	50.078	18.077	16.9	97.0
<i>GOV</i>	14,904	51.646	17.773	19.5	92.3
<i>SS Intensity</i>	14,905	2.690	1.289	0	7
<i>SS Intensity Firm</i>	11,853	0.623	0.401	0	3
<i>SS Intensity Industry</i>	14,855	0.271	0.257	0	2

<i>SS Intensity Macro</i>	14,907	0.334	0.471	0	2
<i>Beta</i>	11,706	1.064	0.531	-0.180	2.170
<i>Leverage</i>	12,378	3.334	0.986	0.495	4.437
<i>GDP Growth</i>	14,906	2.055	0.687	0.576	3.063

Table 4. Pearson's correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(12)	(13)	(14)	(15)
(1) <i>CSR</i>	1.00											
(2) <i>ENV</i>	0.85**	1.00										
(3) <i>SOC</i>	0.87***	0.80***	1.00									
(4) <i>GOV</i>	0.52***	0.23***	0.33***	1.00								
(5) <i>SS Intensity</i>	0.29***	0.26***	0.29***	0.01***	1.00							
(6) <i>SS Intensity Firm</i>	0.28***	0.24***	0.28***	0.001***	0.57***	1.00						
(7) <i>SS Intensity Industry</i>	0.03***	0.02***	0.01***	0.02**	0.20***	0.02***	1.00					
(8) <i>SS Intensity Macro</i>	0.01***	0.03***	0.02***	0.05**	0.36***	0.01***	0.03***	1.00				
(12) <i>Stakeholder country</i>	0.13***	0.22***	0.23***	-0.16***	0.15*	0.10**	-0.01	0.19***	1.00			
(13) <i>Beta</i>	-0.03***	-0.06***	-0.08***	0.08***	-0.01	0.01*	0.02**	-0.02**	-0.07**	1.00		
(14) <i>Leverage</i>	0.16***	0.09***	0.08***	0.17***	0.02*	0.01**	0.02*	-0.03***	0.02***	0.05***	1.00	
(15) <i>GDP Growth</i>	-0.08***	-0.18***	-0.13***	0.17***	-0.10***	-0.11	0.01***	0.03***	-0.07**	0.06***	0.03***	1.00

Table 5. Stakeholder scrutiny: moderation and mediation

Dependent variable	Model 1a - CSR	Model 1b – CFP
<i>CSR</i>		0.206***
<i>SS Intensity</i>	0.276***	0.227***
<i>SS Intensity x CSR</i>		0.246***
<i>Stakeholder country</i>	0.078***	-0.002
<i>Beta</i>	-0.026***	-0.125***
<i>Leverage</i>	0.179***	-0.087***
<i>GDP Growth</i>	-0.048***	0.045***
<i>Constant</i>	3.27***	-0.240***
<i>LR test</i>	24,444.30***	
<i>Number of observations</i>	14,905	
<i>RMSEA</i>	0.030***	
<i>CFI</i>	0.976	
<i>TLI</i>	0.982	
<i>R²</i>	0.17	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 6. Stakeholder scrutiny moderated-mediation

Dependent Variable	Mediator	Moderator	Value of Moderator Stakeholder Scuring	Conditional indirect effects	SE	95% CI	
						Lower	Upper
CFP	CSR	SS INTENSITY	M – 1 SD	0.108***	0.019	0.071	0.144
			M	0.179***	0.016	0.147	0.209
			M + 1 SD	0.249***	0.024	0.202	0.296

Note: Results are based on 5,000 bootstrap resamples. CI, confidence interval; M, mean; SD, standard deviation, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 7. Results for moderated mediation: Organizational dimension

Dependent variable	2a - CSR	2b – ROAA
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<i>CSR</i>		0.106***
<i>SS Intensity Firm</i>	0.295***	0.190***
<i>SS Intensity Firm x CSR</i>		0.139***
<i>Stakeholder country</i>	0.103***	0.002*
<i>Beta</i>	-0.01***	-0.126***
<i>Leverage</i>	0.157***	-0.090***
<i>GDP GRowth</i>	-0.038***	0.050***
<i>Constant</i>	3.755***	0.225***
<i>LR test</i>		1472.66***
<i>Number of observations</i>		14,905
<i>RMSEA</i>		0.034***
<i>CFI</i>		0.988
<i>TLI</i>		0.985
<i>R²</i>		0.16

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 8. Results of Conditional indirect effects: Organizational dimension

Dependent Variable	Mediator	Moderator	Value of Moderator	Conditional indirect effects	SE	95% CI	
						Lower	Upper
ROAA	CSR	SS INTENSITY	M – 1 SD	0.344***	0.077	0.214	0.457
			M	0.494***	0.053	0.404	0.608
			M + 1 SD	0.643	0.066	0.491	0.756

Note: Results are based on 5,000 bootstrap resamples. Abbreviations: CI, confidence interval; M, mean; SD, standard deviation. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 9. Results for moderated mediation: Industry dimension

Dependent variable	3a - CSR	3b – ROAA
<i>CSR</i>		0.116***
<i>SS Intensity Industry</i>	0.032***	0.011***
<i>SS Intensity Industry x CSR</i>		0.019***
<i>Stakeholder country</i>	0.119***	-0.001
<i>Beta</i>	-0.021***	-0.127***
<i>Leverage</i>	0.159***	-0.094***
<i>GDP GRowth</i>	-0.074***	0.042***

<i>Constant</i>	3.982***	0.24***
<i>LR test</i>		522.35***
<i>Number of observations</i>		14,905
<i>RMSEA</i>		0.018***
<i>CFI</i>		0.986
<i>TLI</i>		0.981
<i>R²</i>		0.12

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 10. Results of Conditional indirect effects: Industry dimension

Dependent Variable	Mediator	Moderator	Value of Moderator	Conditional indirect effects	SE	95% CI	
						Lower	Upper
ROAA	CSR	SS INTENSITY	M – 1 SD	0.099***	0.027	0.048	0.158
			M	0.103***	0.028	0.050	0.154
			M + 1 SD	0.107***	0.030	0.046	0.163

Note: Results are based on 5,000 bootstrap resamples. Abbreviations: CI, confidence interval; M, mean; SD, standard deviation. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 11. Results for moderated mediation: macroeconomic dimension

Dependent variable	4a -CSR	4b – ROAA
<i>CSR</i>		0.110***
<i>SS Intensity Macro</i>	0.023***	0.043***
<i>SS Intensity Macro x CSR</i>		0.031***
<i>Stakeholder country</i>	0.123***	0.002**
<i>Beta</i>	-0.020***	-0.127***
<i>Leverage</i>	0.164***	-0.093***
<i>GDP GRowth</i>	-0.073***	0.043***
<i>Constant</i>	3.989***	0.273***
<i>LR test</i>		3047.01***
<i>Number of observations</i>		14,905
<i>RMSEA</i>		0.063***
<i>CFI</i>		0.881
<i>TLI</i>		0.886
<i>R²</i>		0.13

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 12. Results of Conditional indirect effects: macroeconomic dimension

Dependent Variable	Mediator	Moderator	Value of Moderator	Conditional indirect effects	SE	95% CI	
						Lower	Upper
ROAA	ESG	SS INTENSITY	M – 1 SD	0.037***	0.015	0.011	0.073
			M	0.040***	0.016	0.011	0.077
			M + 1 SD	0.042***	0.017	0.010	0.078

Note: Results are based on 5,000 bootstrap resamples. Abbreviations: CI, confidence interval; M, mean; SD, standard deviation. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 13. Results for moderated mediation: Environmental pillar

Dependent variable	SS Intensity		Intensity firm		Intensity industry		Intensity Macro	
	5a - ENV	5b – CFP	5c - ENV	5d – CFP	5e – ENV	5f – CFP	5g - ENV	5h – CFP
CSR		0.142***		0.077***		0.090***		0.083***
Stakeholder Scrutiny	0.331***	0.125***	0.359***	0.155***	0.028***	0.015***	0.019***	0.047***
Stakeholder Scrutiny x CSR		0.128***		0.107***		0.008***		0.038***
Stakeholder country	0.156***	-0.008	0.179***	-0.003*	0.206***	-0.005*	0.205***	-0.004
Beta	-0.049***	-0.125***	-0.040***	-0.125***	-0.044***	-0.125***	-0.043***	-0.126***
Leverage	0.105***	-0.081***	0.089***	-0.084***	0.095***	-0.085***	0.099***	-0.085***
GDP GRowth	-0.140***	0.050***	-0.131***	0.052***	-0.171***	0.050***	-0.171***	0.052***
Constant	2.211***	0.197***	2.734***	0.437***	2.994***	0.437***	2.991***	0.463***
LR test	24,270.27***		1,260.34***		447.95***		2,262***	
Number of observations	14,905		14,905***		14,905		14,905	
RMSEA	0.001***		0.003***		0.002***		0.001***	
CFI	0.988		0.986		0.992		0.982	
TLI	0.991		0.989		0.993		0.986	
R ²	0.22		0.24		0.12		0.11	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 14. Results of Conditional indirect effects: Environmental pillar

Dependent Variable	Mediator	Moderator	Value of Moderator	Conditional indirect effects	SE	95% CI	
						Lower	Upper
ROAA	ENV	SS INTENSITY	M – 1 SD	0.096***	0.020	0.055	0.134
			M	0.151***	0.018	0.116	0.187
			M + 1 SD	0.207***	0.026	0.155	0.267
ROAA	ENV	INTENSITY FIRM	M – 1 SD	0.219***	0.079	0.081	0.376

			M	0.407***	0.061	0.290	0.552
			M + 1 SD	0.595***	0.080	0.426	0.732
ROAA	ENV	INTENSITY INDUSTRY	M - 1 SD	0.070***	0.022	0.031	0.114
			M	0.073***	0.021	0.035	0.114
			M + 1 SD	0.075***	0.023	0.040	0.126
ROAA	ENV	INTENSITY MACRO	M - 1 SD	0.056***	0.013	0.023	0.082
			M	0.075***	0.091	0.037	0.112
			M + 1 SD	0.087***	0.063	0.103	0.123

Note: Results are based on 5,000 bootstrap resamples. Abbreviations: CI, confidence interval; M, mean; SD, standard deviation. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 15. Results for moderated mediation: Social pillar

Dependent variable	SS Intensity		Intensity firm		Intensity industry		Intensity Macro	
	6a - SOC	6b - CFP	6c - SOC	6d - CFP	6e - SOC	6f - CFP	6g - SOC	6h - CFP
CSR		0.183***		0.106***		0.113***		0.105***
Stakeholder Scrutiny	0.262***	0.148***	0.280***	0.192***	0.018***	0.008***	0.010***	0.042***
Stakeholder Scrutiny x CSR		0.160***		0.145***		0.015***		0.034***
Stakeholder country	0.175***	-0.012	0.196***	-0.006	0.215***	-0.011*	0.216***	-0.010
Beta	-0.079***	-0.122***	-0.066***	-0.122***	-0.068***	-0.122***	-0.068***	-0.123***
Leverage	0.095***	-0.081***	0.079***	-0.085***	0.084***	-0.085***	0.087***	-0.086***
GDP Growth	-0.090***	0.048***	-0.083***	0.051***	-0.115***	0.047***	-0.114***	0.049***
Constant	2.172***	0.098***	2.597***	0.369***	2.801***	0.015***	2.803***	0.417***
LR test	24,155.63***		1116.367***		374.61***		2040.726***	
Number of observations	14,905		14,905		14,905		14,905	
RMSEA	0.035***		0.064***		0.028***		0.030***	
CFI	0.898		0.896		0.891		0.899	
TLI	0.896		0.891		0.93		0.897	
R ²	0.18		0.17		0.11		0.10	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 16. Results of Conditional indirect effects: Social pillar

Dependent Variable	Mediator	Moderator	Value of Moderator	Conditional indirect effects	SE	95% CI	
						Lower	Upper
ROAA	SOC	SS INTENSITY	M - 1 SD	0.096***	0.016	0.059	0.120
			M	0.153***	0.013	0.127	0.176
			M + 1 SD	0.211***	0.021	0.169	0.249

ROAA	SOC	INTENSITY FIRM	M - 1 SD	0.224***	0.060	0.130	0.354
			M	0.434***	0.047	0.344	0.354
			M + 1 SD	0.643***	0.060	0.527	0.754
ROAA	SOC	INTENSITY INDUSTRY	M - 1 SD	0.056***	0.024	0.015	0.109
			M	0.058***	0.244	0.015	0.110
			M + 1 SD	0.060***	0.026	0.015	0.110
ROAA	SOC	INTENSITY MACRO	M - 1 SD	0.016***	0.013	0.006	0.049
			M	0.017***	0.014	0.007	0.049
			M + 1 SD	0.019***	0.014	0.006	0.051

Note: Results are based on 5,000 bootstrap resamples. Abbreviations: CI, confidence interval; M, mean; SD, standard deviation. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 17. Results for moderated mediation: Governance pillar

Dependent variable	SS Intensity		Intensity firm		Intensity industry		Intensity Macro	
	7a - GOV	7b - CFP	7c - GOV	7d - CFP	7e - GOV	7f - CFP	7g - GOV	7h - CFP
CSR		0.077***		0.067***		0.071***		0.060***
Stakeholder Scrutiny	0.026***	0.076***	0.032***	0.083***	0.031***	0.024***	0.025***	0.058***
Stakeholder Scrutiny x CSR		0.016***		0.008***		0.030***		0.051***
Stakeholder country	-0.151***	0.015*	-0.149***	0.018**	-0.146***	0.023	-0.142***	0.026***
Beta	0.060***	-0.134***	0.054***	-0.133***	0.054***	-0.133***	0.055***	-0.133***
Leverage	0.184***	-0.086***	0.167***	-0.089***	0.166***	-0.089***	0.169***	-0.090***
GDP Growth	0.152***	0.029***	0.153***	0.032***	0.149***	0.023***	0.150***	0.026***
Constant	1.978***	0.389***	2.060***	0.514***	2.084***	0.567***	2.091***	0.603***
LR test	24,985***		1781.79***		377.43***		1925.46***	
Number of observations	14,905		14,905		14,905		14,905	
RMSEA	0.063***		0.023***		0.019***		0.073***	
CFI	0.896		0.899		0.893		0.896	
TLI	0.899		0.911		0.892		0.893	
R ²	0.12		0.11		0.10		0.10	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 18. Results of Conditional indirect effects: Governance pillar

Dependent Variable	Mediator	Moderator	Value of Moderator	Conditional indirect effects	SE	95% CI	
						Lower	Upper
ROAA	SOC	SS INTENSITY	M - 1 SD	0.011***	0.004	0.010	0.021
			M	0.015***	0.005	0.011	0.041

ROAA	SOC	INTENSITY FIRM	M + 1 SD	0.018***	0.006	0.013	0.102
			M - 1 SD	0.037***	0.012	0.017	0.063
			M	0.039***	0.012	0.019	0.061
ROAA	SOC	INTENSITY INDUSTRY	M + 1 SD	0.040***	0.013	0.020	0.071
			M - 1 SD	0.022***	0.014	0.001	0.050
			M	0.026***	0.015	0.003	0.052
ROAA	SOC	INTENSITY MACRO	M + 1 SD	0.029***	0.017	0.006	0.062
			M - 1 SD	0.024***	0.007	0.013	0.020
			M	0.028***	0.007	0.018	0.038
			M + 1 SD	0.031***	0.008	0.022	0.043

Note: Results are based on 5,000 bootstrap resamples. Abbreviations: CI, confidence interval; M, mean; SD, standard deviation. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Table 19. Endogeneity tests

Models	2SLS		SEM	
	8a - CSR	8b - ROAA	8c - CSR	8d - ROAA
Dependent variable				
<i>CSR_Country</i>	0.188***		0.189***	
<i>Loss</i>	-0.121***		-0.126***	
<i>CSR</i>		0.266***		0.286***
<i>SS Intensity</i>		0.061***		0.054***
<i>SS Intensity Firm</i>		0.033***		0.028***
<i>SS Intensity Industry</i>		0.021***		0.015***
<i>SS Intensity Macro</i>		0.037***		0.031***
<i>Beta</i>		-0.253***		-0.128***
<i>Leverage</i>		-0.089***		-0.067***
<i>GDP Growth</i>		0.056***		0.048***
<i>Constant</i>		-1.440***		-1.439***
<i>LR test</i>			2448.47***	
<i>Number of observations</i>		7,499	14,905	
<i>Covariance between the error term ROAA and CSR</i>			0.319***	
<i>Coefficient of determination</i>			0.19	
<i>Number of clusters (firms)</i>		2,347		
<i>F</i>	356.88***	109.97***		
<i>R²</i>	0.29	0.39		
<i>Test for Endogeneity</i>		65.869***		
<i>Cragg-Donald F Statistic</i>		45.793		
<i>KP Wald F Statistics</i>		34.351		
<i>F-test of excluded instrument</i>		24.486***		

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

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