

Assessing the Role of Community Participation in Mediating the Impact of Social Financial Practices on Business Performance in Indonesia's Palm Oil Industry

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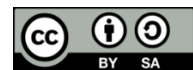
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ABSTRACT

The Indonesian palm oil industry is critical in the national economy, yet it faces significant social and environmental challenges. This study investigates the mediating role of community participation in the relationship between social financial practices and business performance in this sector. Using a quantitative approach, data were collected from 180 respondents through a structured survey and analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3). The findings indicate that community participation positively impacts business performance and strengthens the effectiveness of social financial practices. Social financial practices, which integrate social and environmental considerations into financial decision-making, were shown to significantly enhance business performance, especially when supported by active community engagement. These results underscore the importance of community involvement in implementing socially responsible finance and highlight its role in promoting sustainable business practices. The study contributes to the literature on sustainable finance and stakeholder engagement by providing empirical evidence on the interdependent roles of community participation and social finance in achieving business success in the palm oil industry.

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1. INTRODUCTION

The palm oil industry in Indonesia is a significant economic cornerstone for national growth and global vegetable oil supply but faces major environmental and social challenges. As a leading palm oil producer, Indonesia dominates the market with refined products such as palm oil and oleochemicals [1], [2]. The industry supports rural livelihoods through a wide network of

stakeholders [3]. However, plantation expansion has led to deforestation and social problems, such as poor labour conditions and the displacement of Indigenous communities [1], [3]. Few companies have adopted sustainable waste management practices [4]. Sustainability efforts such as strengthening ISPO certification and financial support for smallholders are essential [5], while maintaining forest cover and building

infrastructure can support sustainable practices without compromising yields [2], [4].

Social finance, by integrating social and environmental aspects in financial decisions, offers an important sustainable approach, particularly in the Indonesian palm oil sector. It includes impact investing, community-focused lending, and profit-sharing models, which balance financial returns with social justice and environmental stewardship [6]. Impact investing supports sustainability practices by directing funds to environmentally friendly projects in the palm oil sector [7]. The integration of these investments helps address deforestation and displacement by supporting sustainable agricultural practices [8]. Community-focused lending provides funds for smallholders to adopt environmentally friendly methods, improve their livelihoods, and promote sustainability [8]. Profit-sharing models align the interests of investors and communities, ensure equitable profit distribution, and incentivise sustainability by linking financial rewards to environmental and social performance [6], [9].

Community participation is a critical component in the effectiveness of social finance practices, ensuring the active involvement of local stakeholders in decisions that affect their environment and livelihoods. It fosters a sense of ownership and accountability, enhances the sustainability and success of initiatives, and helps companies obtain a social licence to operate, resulting in productivity, reduced conflict and better public perception. Community engagement also increases project effectiveness by ensuring alignment with local needs [10] and enhancing stakeholder credibility [10]. Community-based tourism (CBT) demonstrates the economic and social benefits of active community participation in improving economic well-being, cultural understanding, and environmental conservation [11]. Sustainable volunteer tourism, which focuses on building local capacity, shows positive impacts on economic, socio-cultural, environmental and human resource aspects [12]. Participation in

budgeting maintains transparency of local financial management and ensures more responsive public policies [13], while participatory urban planning improves inclusiveness and sustainability [14].

Despite the promising potential of community participation in mediating the impact of social finance on business performance, research in this area remains limited, especially in the palm oil sector. While existing research focuses on the financial and environmental aspects of sustainability, few explore the dynamics of social finance and community engagement as drivers of business success. This study addresses this gap by investigating the role of community participation as a mediator in the relationship between social finance practices and business performance in the Indonesian palm oil industry.

2. LITERATURE REVIEW

2.1 *Social Finance Practices*

Social finance, which combines social and environmental benefits with financial returns, has great potential to support sustainable development in the palm oil industry. With instruments such as impact investing, social bonds, and community lending, social finance can address environmental and social challenges in the industry. Initiatives such as revenue sharing with local farmers, sustainable land investment, and community development promote equitable economic growth and corporate responsibility. Impact investing and social bonds are important for directing funds to sustainable practices in industries that require conservation and social inclusion [15], [16]. Community lending supports local farmers and community projects, enabling participation in a sustainable economy [17]. In addition, profit-sharing models and land conservation investments reduce the negative impacts of oil palm production, in line with global sustainability goals [18], [19].

2.2 *Community Participation*

Community participation in the palm oil industry is critical to promoting sustainable development and ensuring the voices of local communities are integrated in decision-making processes. This engagement can improve project design, strengthen buy-in, and ensure equitable distribution of benefits, which is essential for sustainable practices in sectors such as agriculture, mining, and forestry. In the Indonesian palm oil industry, community participation can drive sustainable practices by integrating local knowledge and concerns into company strategies, building trust, reducing resistance, and creating co-benefits that improve overall performance [20]–[22]. Community engagement results in better and more acceptable project designs, as it accommodates local knowledge and preferences [23], [24], and ensures a more equitable distribution of benefits among community members, which fosters a sense of ownership and responsibility (Ananga & Naiga, 2024). Participation also enhances sustainability by aligning projects with local social and environmental goals [23]. However, participation faces challenges such as capital constraints, cultural and language barriers, and power dynamics that can reinforce existing power structures [23]. To increase the effectiveness of participation, there is a need for resource investment and institutional strengthening [25], interactive inclusive processes [14], and community empowerment and awareness programmes [26].

2.3 *Business Performance*

Sustainable business performance in the palm oil industry involves the integration of financial, social and environmental metrics to achieve long-term success. Research shows that sustainable practices, such as corporate social responsibility (CSR) and stakeholder engagement, can enhance business performance by improving

corporate reputation, customer loyalty and operational resilience. In the palm oil sector, companies that prioritise sustainability and community well-being often experience increased productivity, reduced costs from social conflicts, and better market access. Sustainability practices create competitive advantage through the creation of social goodwill and the reduction of reputational risk, which is particularly important in industries characterised by environmental and social issues [27], [28]. Engaging local stakeholders and prioritising community welfare has been shown to increase productivity and reduce operating costs [27]. CSR initiatives improve consumer perceptions, strengthen customer loyalty, and increase employee satisfaction, which has a positive impact on financial performance and long-term sustainability [29]. Moreover, CSR is not just regulatory compliance but also a strategic tool for business performance transformation [30], [31]. Research trends show a link between corporate sustainability and firm performance, especially in countries such as China, India and the United States [28]. However, there is a lack of research focusing on developing countries and specific industries such as palm oil, suggesting the need for further research in this area [28], [32].

2.4 *The Mediating Role of Community Participation*

Community participation plays an important mediating role in the relationship between social finance practices and business performance, especially in industries that rely heavily on local resources and communities, such as palm oil. By fostering support, leveraging local knowledge and promoting accountability, community participation can increase productivity, reduce conflict and enhance social legitimacy, thereby promoting inclusive growth. This participation ensures that social economy initiatives are rooted in local values, which is necessary for

effective resource mobilisation and engagement, and therefore the effectiveness of social finance projects [33]. In microfinance, participation through social and emotional support increases the efficiency of benefit utilisation and rates of return, and encourages beneficiaries to become donors, sustaining the financial ecosystem [34]. Community-based innovation management, which leverages local knowledge, is important for social inclusion and improved business performance, helping social enterprises address local challenges and increase their impact [35]. In addition, the effectiveness of fund management in village development is strongly influenced by community participation, accountability, and transparency, which together support sustainable development and community welfare [36]. While studies have explored the separate impacts of social finance and community participation on business outcomes, research on their combined effect in the palm oil sector remains

limited. This study aims to fill this gap by examining how socially responsible finance, supported by community involvement, can enhance business performance in Indonesia's palm oil sector [37].

2.5 Conceptual Framework

This study proposes a conceptual framework where community participation mediates the relationship between social finance practices and business performance. Informed by stakeholder engagement theory, which suggests that active stakeholder involvement—especially from local communities—enhances social and financial outcomes (Freeman, 1984), this model aligns with prior research highlighting the benefits of socially responsible finance and community engagement for sustainable business. The quantitative analysis will test these hypotheses, adding to the literature on sustainable finance and community involvement in Indonesia's palm oil industry.

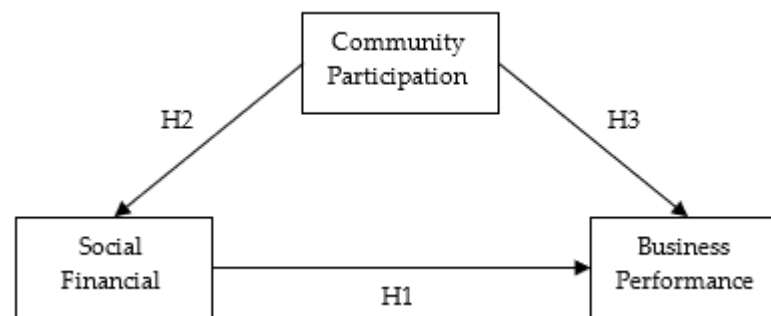


Figure 1. Conceptual and Hypothesis

Source: Literature Review, 2024

3. RESEARCH METHODS

3.1 Research Design

This study employs a quantitative research design to examine the mediating role of community participation between social finance practices and business performance. Quantitative research is suitable for this study because it allows for statistical analysis of relationships among variables,

enabling a comprehensive understanding of the mediating effect of community participation. A cross-sectional survey method was used to gather data from a sample of respondents within the Indonesian palm oil industry, focusing on the perceptions of social finance practices, community participation, and business performance.

3.2 Population and Sample

The target population for this study includes stakeholders within the Indonesian palm oil industry, such as plantation owners, community leaders, and industry practitioners directly involved in or affected by social finance initiatives. Due to the large and dispersed nature of this population, a purposive sampling method was employed to ensure that the sample includes individuals knowledgeable about social finance practices and community participation within the industry, helping to gather accurate and relevant responses that capture diverse industry perspectives. A sample size of 180 respondents was chosen, considered adequate for Structural Equation Modeling-Partial Least Squares (SEM-PLS), the analytical technique used in this research. A minimum sample size of 150 is generally recommended for SEM-PLS analysis to ensure sufficient statistical power and reliable results (Hair et al., 2014).

3.3 Data Collection

Data were collected through a structured questionnaire designed to gauge perceptions of social finance practices, community participation, and business performance, distributed via email and in-person surveys over three months. Survey items, adapted from existing scales in the literature for relevance to the Indonesian palm oil industry, were rated on a 5-point Likert scale from "strongly disagree" (1) to "strongly agree" (5). Prior to the main survey, a pilot study with 20 participants from the target population tested the questionnaire's reliability and validity; feedback from this pilot was used to refine the survey, ensuring clarity and ease of understanding for respondents.

3.4 Data Analysis

The collected data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with version 3 of the software, a robust method suited to this study's model complexity and moderate sample size (Hair et al.,

2017). Analysis proceeded in two stages: first, the Measurement Model Assessment checked for construct validity and reliability, ensuring convergent validity with AVE thresholds of 0.5 or higher, and discriminant validity using the Fornell-Larcker criterion. Composite reliability (CR) and Cronbach's alpha values of 0.7 or higher indicated satisfactory reliability (Bagozzi & Yi, 1988). Next, the Structural Model Assessment tested the relationships between social finance practices, community participation, and business performance. Path coefficients and statistical significance were assessed via bootstrapping (5,000 samples) to evaluate both direct and mediated effects. The model's explanatory power was gauged by the coefficient of determination (R^2) for business performance, with values of 0.25, 0.50, and 0.75 representing weak, moderate, and substantial power, respectively (Hair et al., 2014). Additionally, effect size (f^2) and predictive relevance (Q^2) were calculated to assess the model's practical significance and predictive capability.

4. RESULTS AND DISCUSSION

4.1 Results

a. Descriptive Statistics

Descriptive statistics were calculated to provide an overview of the respondents' perceptions of social finance practices, community participation, and business performance. The sample included 180 respondents from various organizations within the Indonesian palm oil industry, with responses measured on a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree). Mean scores for social finance practices, community participation, and business performance were 3.72, 3.68, and 3.80, respectively, suggesting that respondents generally held positive perceptions of these practices and outcomes within their organizations. Standard deviations were relatively low,

indicating consistency in responses across participants.

The demographic profile of the 180 respondents provides an overview of their characteristics relevant to the Indonesian palm oil industry, reflecting their involvement in social finance practices, community participation, and business performance. Key demographic variables include age, gender, education level, job position, and years of experience. Age distribution shows that most respondents (61.1%) are between 30 and 49 years, providing a balanced generational perspective. Gender distribution includes 62.2% male and 37.8% female respondents, aligning with the traditionally male-dominated nature of the industry. Education levels indicate that the majority (79.4%) hold at least a Bachelor’s degree, with 28.9% holding a Master’s degree, suggesting

an educated sample with an understanding of industry practices. Job positions range from operational staff to executive roles, with most respondents (63.9%) in mid-level or senior management, likely involved in strategic decision-making. Years of experience reveal that most respondents (63.9%) have 5-20 years in the palm oil sector, indicating a knowledgeable group with substantial industry exposure.

b. Measurement Model Analysis

The measurement model was assessed to confirm the validity and reliability of each construct—Community Participation, Social Financial Practices, and Business Performance—ensuring it meets standards for structural equation modeling. Evaluation criteria included Factor Loadings (LF), Cronbach’s Alpha (CA), Composite Reliability (CR), and Average Variance Extracted (AVE).

Table 1. Model Reliability Results

Constructs	Indicators	LF	CA	CR	AVE
Community Participation	Level of Engagement	0.836	0.911	0.934	0.740
	Diversity of Participation	0.915			
	Decision-Making Power	0.906			
	Knowledge and Awareness	0.889			
	Capacity Building	0.744			
Social Financial Practices	Social Impact of Investments	0.894	0.864	0.908	0.711
	Ethical Financial Practices	0.887			
	Financial Inclusion	0.795			
	Corporate Social Responsibility (CSR) Spending	0.791			
Business Performance	Financial Performance	0.799	0.844	0.853	0.693
	Operational Performance	0.790			
	Customer Performance	0.866			
	Employee Performance	0.827			
	Marketing Performance	0.845			
	Sales Performance	0.832			
	Innovation and Development	0.815			
	Sustainability and CSR	0.852			
Risk Management	0.861				

Source: Results of data analysis (2024)

Source: Primary data processing by author’s (2023)

Community Participation was measured using five indicators—

Level of Engagement, Diversity of Participation, Decision-Making

Power, Knowledge and Awareness, and Capacity Building—with strong factor loadings from 0.744 to 0.915, a high Cronbach’s Alpha of 0.911, Composite Reliability (CR) of 0.934, and AVE of 0.740, indicating robust reliability and validity. The Social Financial Practices construct, comprising Social Impact of Investments, Ethical Financial Practices, Financial Inclusion, and CSR Spending, showed factor loadings from 0.791 to 0.894, a Cronbach’s Alpha of 0.864, CR of 0.908, and AVE of 0.711, confirming it meets reliability and validity standards. Business Performance, measured with nine indicators—Financial, Operational, Customer, Employee, Marketing, Sales

Performance, Innovation, Sustainability and CSR, and Risk Management—had factor loadings from 0.790 to 0.866, Cronbach’s Alpha of 0.844, CR of 0.853, and AVE of 0.693, validating its reliability and robustness within the model.

Variance Inflation Factor (VIF) values were calculated to assess multicollinearity within the measurement model. Multicollinearity occurs when independent variables are highly correlated, potentially distorting the regression estimates and weakening the validity of the model. In general, a VIF value above 5 indicates high multicollinearity, while values between 1 and 5 are generally acceptable for structural models.

Table 4. VIF Internal

Variable	Business Performance	Social Financial Practices
Community Participation	2.805	1.000
Social Financial Practices	2.805	

Source: primary data processing by author’s (2023)

The VIF values in this study fall within acceptable ranges ($VIF < 5$), indicating that multicollinearity is not a significant issue in the model. These results suggest that each construct—Community Participation and Social Financial Practices—contributes unique explanatory power to the model without excessive overlap. This supports the robustness of the structural model and ensures that the results derived from the analysis are reliable and unbiased.

c. Discriminant Validity Analysis

Discriminant validity assesses the extent to which a

construct is distinct from other constructs in the model. It is crucial to confirm that each construct measures unique aspects of the model, avoiding redundancy and ensuring clarity in the relationships. Discriminant validity is typically evaluated by comparing the square root of the Average Variance Extracted (AVE) for each construct with the correlation values between constructs. A construct is considered to have adequate discriminant validity if the square root of its AVE is higher than its correlations with other constructs.

Table 5. Validity for Discrimination

Variable	Business Performance	Community Participation	Social Financial Practices
Business Performance	0.832		
Community Participation	0.798	0.86	
Social Financial Practices	0.817	0.802	0.843

Source: primary data processing by author’s (2023)

The discriminant validity analysis indicates that each construct in the model—Business Performance, Community Participation, and Social Financial Practices—measures a unique concept, as evidenced by the square roots of their AVEs being higher than the inter-construct correlations. This ensures that the constructs are not only statistically distinct but also conceptually distinct, supporting the robustness and clarity of the measurement model.

d. Hypothesis Testing Analysis

This section discusses the results of the hypothesis testing conducted to assess the relationships among Community Participation, Social Financial Practices, and Business Performance. Hypothesis testing in this model was performed using the T-statistic and p-values derived from bootstrapping with 5,000 samples. A hypothesis is considered accepted if the p-value is below the threshold (typically 0.05) and the T-statistic is above 1.96, indicating that the path coefficient is statistically significant.

Table 6. Hypothesis Tests Results

Hypotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistic	P-Values	Results
Community Participation -> Business Performance	0.399	0.402	0.125	3.192	0.002	Accepted
Community Participation -> Social Financial Practices	0.802	0.805	0.033	24.342	0.000	Accepted
Social Financial Practices -> Business Performance	0.497	0.498	0.12	4.152	0.000	Accepted

Source: Primary data processing by author’s (2023)

Hypothesis 1 posits that Community Participation positively impacts Business Performance, with a path coefficient of 0.399, a T-statistic of 3.192, and a p-value of 0.002, indicating a moderate positive relationship. This supports the idea that community involvement fosters trust, reduces conflicts, and enhances social legitimacy, leading to improved productivity, stakeholder satisfaction, and reputation. Hypothesis 2 suggests that Community Participation positively influences Social Financial Practices, reflected by a high path coefficient of 0.802, T-statistic of 24.342, and p-value of 0.000, highlighting the role of community engagement in promoting ethical finance, social impact, and inclusivity. Hypothesis 3 posits that Social Financial Practices positively affect Business Performance, with a path coefficient

of 0.497, T-statistic of 4.152, and p-value of 0.000, suggesting that socially responsible finance practices improve business outcomes, operational efficiency, reputation, and stakeholder trust. All three hypotheses were accepted, demonstrating significant positive relationships among Community Participation, Social Financial Practices, and Business Performance.

4.2 Discussion

The findings of this study illuminate the significant roles of Community Participation and Social Financial Practices in enhancing Business Performance within the Indonesian palm oil industry. This section interprets the results, discusses their alignment with existing literature, and explores their practical implications for promoting sustainable and socially responsible business practices.

a. The Impact of Community Participation on Business Performance

The study reveals that Community Participation significantly and positively affects Business Performance, suggesting that companies engaging local communities in decision-making experience improved outcomes. This aligns with stakeholder theory, which posits that engaging stakeholders, especially local communities, enhances business performance and sustainability [38]. Engaging stakeholders, particularly local communities, is essential for enhancing business performance and sustainability, aligning with stakeholder theory, which emphasizes the value of community involvement in industries like palm oil, where environmental and social challenges are significant. By involving communities, companies can build trust, reduce conflicts, and strengthen their social license to operate, thereby improving their reputation and operational efficiency. Effective stakeholder engagement has proven vital for project sustainability, as seen in the Niger Delta, where active involvement in project phases improved corporate social responsibility outcomes [39]. In the energy sector, proactive stakeholder engagement fosters trust, gains approvals, and reduces conflicts, all critical for sustainable project success [40]. Strategies like stakeholder mapping, continuous communication, and partnerships with local organizations enhance engagement by fostering a sense of ownership [40]. In Kenya's sugar industry, effective communication and relationship management correlate with improved sustainable performance [41]. Despite challenges like limited capital and language barriers, addressing these through

resource investment and enhanced communication can lead to better project outcomes [14]. Future trends point to localized and data-driven approaches to further strengthen stakeholder engagement and sustainability [38]. In the palm oil industry, known for its environmental and social impact challenges, fostering community participation enables companies to achieve sustainable and profitable results. By involving communities, companies not only improve their reputation but also build social capital, enhancing resilience and operational stability. This positive relationship underscores the importance for palm oil companies to integrate community participation into core strategies, leading to increased social acceptance, stronger community ties, and reduced risks associated with conflicts and environmental concerns.

b. The Role of Community Participation in Promoting Social Financial Practices

The results show a strong positive effect of Community Participation on Social Financial Practices, indicating that community engagement motivates companies to adopt socially responsible financial practices. This engagement enhances accountability and transparency, prompting companies to balance social and environmental goals with financial objectives [6], [36], [42]. In social finance, community voices shape financial decisions, promoting impact investing, ethical finance, and financial inclusion, as supported by studies showing that active community involvement aligns financial practices with societal needs [14], [36]. In the palm oil industry, where environmental and social pressures are prominent, involving communities in financial decision-making helps ensure that corporate

resources benefit both the business and the community. These findings emphasize the value of community participation in fostering socially responsible financial practices, particularly in sectors facing substantial social and environmental challenges.

c. The Effect of Social Financial Practices on Business Performance

The positive impact of Social Financial Practices on Business Performance indicates that socially responsible finance enhances business outcomes by building trust, improving reputation, and fostering customer loyalty [43]–[47]. Social finance initiatives, such as community-focused investments, ethical practices, and CSR activities, strengthen brand reputation and stakeholder relations. In the Indonesian palm oil sector, social finance mitigates negative social and environmental impacts, supporting customer trust, operational stability, and market competitiveness. This finding highlights the importance of embedding social finance into core strategies, not merely for regulatory compliance but to boost sustainable business performance. By aligning financial practices with social and environmental goals, companies can enhance operational efficiency, brand loyalty, and market competitiveness.

d. The Mediating Role of Community Participation

The results indicate that Community Participation mediates the relationship between Social Financial Practices and Business Performance, suggesting that while Social Financial Practices independently enhance business outcomes, their impact is amplified when companies involve communities in financial and operational decisions. Community participation fosters shared ownership, trust, and accountability,

enabling companies to align financial practices with local values and address community concerns, resulting in greater support and cooperation. This aligns with literature suggesting that community involvement improves the success of corporate social responsibility initiatives by aligning them with community needs [36], [48]–[51]. Practically, this mediating effect implies that to maximize the impact of social finance on business performance, palm oil companies should prioritize community participation, thereby enhancing outcomes like reputation, operational efficiency, and market acceptance.

4.3 Practical Implications

The findings of this study have several practical implications for industry stakeholders, including managers, policymakers, and community leaders:

The positive effects of Community Participation and Social Financial Practices on Business Performance highlight the importance of integrating these elements into corporate strategies. Companies should actively engage with local communities, not only to fulfill social responsibilities but also to enhance operational efficiency and financial performance. Incorporating community feedback into financial decision-making processes can lead to more sustainable and accepted business practices, reducing risks associated with community opposition and environmental criticism.

The findings suggest that policies supporting community engagement and socially responsible finance can play a crucial role in promoting sustainable growth in the palm oil industry. Policymakers could encourage or incentivize companies to adopt these practices by implementing regulatory frameworks that recognize and reward socially responsible financial initiatives and community engagement.

Community leaders can leverage the results of this study to advocate for more involvement in the financial and operational decisions of palm oil companies. By fostering collaborative relationships with companies, communities can ensure that their needs and perspectives are considered, promoting mutual benefits and enhancing the social and economic resilience of their regions.

4.4 Theoretical Contributions and Future Research

This study contributes to the literature by underscoring the pivotal role of community engagement as both a predictor of socially responsible financial practices and a mediator between social finance and business performance, supporting and extending stakeholder theory in emphasizing community involvement for sustainable outcomes. Future research could benefit from longitudinal studies to better understand the long-term impacts of community participation and social finance on business performance. Comparative studies across industries and regions would also help assess the generalizability of these findings, offering insights into how social finance and community engagement support sustainable development in varied contexts.

5. CONCLUSION

This study offers valuable insights into the interplay between community participation, social financial practices, and business performance in the Indonesian palm oil industry, revealing that community engagement is a key predictor of both social financial practices and business performance. The findings show that social financial practices, when supported by community involvement, positively impact business performance by aligning financial actions with social and environmental goals. Community participation serves as a mediator, amplifying the effects of social finance on performance by enhancing operational efficiency and building trust. For companies in socially and environmentally sensitive sectors, these insights highlight the importance of integrating community perspectives into financial and operational strategies to achieve sustainable growth. The study suggests that palm oil companies, policymakers, and community leaders should prioritize community engagement to build a more responsible and resilient industry. By fostering transparent partnerships, companies can drive sustainable practices that benefit both the industry and society. Future research should explore these dynamics across sectors and regions to broaden understanding of how social finance and stakeholder engagement support sustainable business practices.

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