

## **Impact of Sustainable Business Model on Return on Equity In Companies in Croatia**

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### **Abstract:**

Companies around the world recognize that sustainability is not merely a regulatory requirement or moral choice, but a source of competitive advantage. Every day, companies are shifting from a conservative to a sustainable business model. A sustainable business model aims to balance shareholder needs, prioritize long-term outcomes, and integrate economic performance with social and environmental considerations. Return on equity (ROE) is considered a key gauge of a corporation's profitability and its ability to generate those profits efficiently. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing. The main objective of this paper is to examine how the transition from a conservative to a sustainable business model affects ROE, while also analyzing the impact of company size, industry sector, year and their interaction effects. This study utilized panel data for a random sample of 1.830 observations (230 Croatian companies over 6 years). A linear mixed model was used in the SPSS program to perform statistical analysis. The results of the panel data confirmed that there is a statistically significant relationship ( $p < 0.001$ ) between the business model, company size, industry sectors, years and ROE. The results show that the business model significantly influences ROE. Specifically, sustainable companies dramatically outperform conservative ones, both statistically and economically. These results suggest that adopting a sustainability-oriented model may lead to superior financial outcomes, while conservative approaches may be associated with systemic underperformance. Overall, the model indicates that business model, year, sector, companies size, and their key interactions (particularly year-sector and multiway interactions) significantly contribute to the variation in ROE. The main limitation of this study is a small and country-limited sample. Future research should focus on increasing the sample size in other European countries and examining additional accounting and market profitability indicators. ROE is rarely researched, especially in emerging market economies, and the main contribution of this paper is to fill this gap. The findings offer valuable implications for corporations and regulatory bodies providing practical guiding elements that facilitate the implementation of a sustainable business model that maximizes shareholder wealth.

### **Keywords:**

Conservative business model, sustainable business model, return on equity (ROE).