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RESEARCH ARTICLE:

The Impact of Corporate Social Responsibility on Financial Performance in a Selected Medium-Sized Clothing Manufacturing Organization in South Africa

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Abstract

Corporate Social responsibilities (CSR) is an established idea that urges corporations to incorporate environmental and social responsibilities into their operations. It enables businesses to be socially responsible to stakeholders and the public. Small and medium-sized enterprises (SMEs) have received international recognition for their contributions to social and economic development. This study investigates the impact of CSR on financial performance in a medium-sized clothing manufacturing company in the eThekwini District Municipality of KwaZulu Natal, South Africa. The study was designed to be conclusive. It employs a quantitative approach, examining the experiences of an organization that has implemented CSR. The study's objective was met by gathering pre- and post-quarterly data on profitability and production costs. The data was analysed using the Ordinary Least Squares (OLS) model and the Statistical Package for the Social Sciences (SPSS). The findings show that CSR can boost financial performance by minimising business-related risks and compliance expenses, which leads to increased profitability and lower production costs. Any rise in profitability boosts the organization's financial performance, while any drop in production costs improves the company's financial performance. This study identifies the strengths and weaknesses of CSR in relation to financial performance in the selected medium-sized manufacturing business in South Africa.

***Keywords**: corporate social responsibility; financial performance; production costs; manufacturing SME; South Africa*

Introduction

Numerous studies have been undertaken to comprehend better the link between Corporate Social Responsibility (CSR) and financial success in developed nations (Martinez-Conesa *et al*., 2017; Kim *et al*., 2020; Sarkar *et al*., 2021). According to Lee and Kim (2017), the relationship between CSR efforts and financial performance can be achieved by recognising a good fit between company culture and CSR practice. This requires that CSR must be included in the culture and strategy of the company. Garg and Gupta (2020) aver that stakeholder-oriented management enhances corporate performance in general because stakeholders have higher expectations of a business with stronger financial performance (Lee and Hu, 2018). As a result, stakeholder relationships are enhanced when the business is doing well. Notably, 'performing well' under the Stakeholder Theory simply means "looking after the interests of all stakeholders". In agreement are Li *et al*. (2020), maintain that the majority of research is focused on the financial performance of firms from the perspective of the employees (as employees are considered one of the most important stakeholders). This is useful because when employees' needs are met through CSR initiatives, they become more productive and financial performance improves as a result. Consequently, this study assesses the influence of CSR on the financial performance of a medium-sized business.

Sarkar *et al*. (2021) recognise that the relationship between CSR and stakeholders serves as the required foundation for analysing the possible business value that the company may obtain. Furthermore, research on the

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impact of CSR on company performance has been unclear, with studies indicating both positive and negative outcomes. As a result, the literature review is based on empirical investigations to determine the connection between CSR and company performance. For example, Nguyen *et al*. (2020) found a positive relationship between CSR and financial performance, as did several other scholars and researchers (Ruf *et al*., 2001; Ghazzawi and Palladini, 2014; Bikefe *et al*., 2020; Li *et al*., 2020). Cho *et al*. (2019) investigated whether there was a systematic relationship concerning CSR success and corporate financial performance. CSR performance was assessed using the Korea Economic Justice Institute (KEJI) index. Correlations were studied using 191 Korea Exchange-listed enterprises. This study found that only social contribution has a statistically significant positive relationship with the business stability and profitability of the company, implying that economic and environmental contributions are insignificant. Feng *et al*. (2017), explored how the association amongst a company's CSR engagement and financial performance differs by industry and CSR category, concluding that CSR offers significant benefits for organisations in various industries. Different kinds of CSR efforts have diverse implications on the financial performance of companies across industries. As a result, the study assesses the effect of CSR on financial performance in an identified manufacturing medium-sized enterprise in the eThekwini District Municipality of KwaZulu Natal, South Africa. The following research questions (RQs) guide the study;

- RQ1: Is there a significant influence of CSR on profitability in the medium-sized manufacturing organization in South Africa?
- RQ2: Does CSR influence the production cost in the medium-sized manufacturing organization in South Africa?

The remainder of the paper discusses the outcomes of the study, the methodology employed, the literature review, and a discussion of the findings. It examines how the findings may affect practice and policy, the limits of the study, the conclusion, and the need for more research.

Literature Review

Numerous authors, both locally and globally, have been drawn to studies on CSR and its various implications on company performance (Babalola, 2012; Osagie, 2017; Cho et al., 2019; Newman et al., 2020; Ramzan et al., 2021; Babajee *et al*., 2021; Bello *et al*., 2019). According to Cho et al. (2019), research on the benefits of CSR participation on financial performance is classified into two categories: those that argue for a positive relationship and those that argue for a negative association. The former indicates that firms' increased revenue from CSR outweighs the costs involved. This is because CSR (which is a sustainability programme) strives to enhance product quality, lower prices, and increase efficiency to build a more sustainable future for the company and the communities it serves. As a result, businesses see CSR as a benefit rather than an expense. While the latter contends that organizations that adopt CSR will incur costs, these costs will eventually become a burden, reducing revenue and business profits (Niron and Aryani, 2017; Karmani and Boussaada, 2021; Nguyen and Nguyen, 2021; Ramzan et al., 2021).

For instance, Nguyen and Nguyen (2021) investigated the relationship between CSR and financial performance in Vietnamese businesses, with the findings revealing that firms that prioritise CSR improvement in their operations may be eligible for lower interest rates on loans due to their low risk and good reputation. This stresses stakeholders' perspectives on the positive effects of CSR on a company's financial performance. Furthermore, a positive reputation may build trust and linkages with a wide range of stakeholders, resulting in lower costs and greater efficiency (Sánchez and Benito-Hernández, 2015; Boachie and Tetteh, 2021). Huber *et al*. (2017), also argue in favour of CSR, stating that its adoption improves the demand for business products, resulting in higher sales and profitability. They also assert that investors prefer companies that practise CSR, even if it means accepting lower returns. This emphasises the importance of stakeholder relations. Furthermore, it is contended that socially responsible enterprises recruit more productive staff, which contributes to higher profitability. Oduro and Haylemariam (2019) concur that the negative but insignificant association impact of CSR in the Ghanaian scenario indicates that, while initiatives related to CSR may increase costs in the short term, consumers may respond to CSR activities in the long run. Although CSR may be a short-term expense, firms can invest in activities that benefit their long-term interests at the sacrifice of current profits (Pekovic and Vogt, 2021). As such, businesses should not expect CSR initiatives to guarantee an immediate financial performance. CSR is an investment made by a company; hence it takes time to see a positive impact on business performance, particularly profit.

Opponents of CSR presents conflicting views on its impact on financial performance. For instance, Park *et al*. (2020) assert that CSR expenditure is an additional cost for corporations, diverting earnings away from core business interests. They suggest that pricey CSR measures may have a negative influence on financial performance. This is supported by Friedman (2007) and Arrive *et al*. (2019) who aver that the social responsibility of businesses is to increase corporate profitability, implying the abandonment of operations that do not contribute to the profit goal. Mahmood et al. (2021) also identify the adverse effect of CSR on financial performance, recommending businesses to reevaluate their investment in CSR engagement. Salvioni and Gennari (2020) solidify this by pointing out that CSR efforts that exceed legally defined minimum criteria incur additional costs, thereby jeopardising shareholder interests. This is supported by Rhou *et al*. (2016) who argue that certain CSR initiatives, such as charitable donations, may not necessarily result in profits and may constrain a company's strategic options. Furthermore, Sinthupundaja *et al*. (2019) assert that traditional opinion holds that Thai CSR simply incurs costs for a business and does not regain profits due to the country's inadequate institutional frameworks in comparison to industrialised nations. This necessitates studies into whether CSR improves financial performance in developing nations.

Despite these concerns, proponents of CSR emphasise the long-term benefits on the business. Newman *et al*. (2020) highlight the possibility for CSR to boost revenues and overall performance by cutting production costs, encouraging product differentiation, and driving innovation. Building trust with stakeholders through CSR is viewed as resulting in better relationships, lower transaction costs, and new consumers and business opportunities. Escamilla-Solano *et al*. (in 2019) acknowledge the ongoing debate about whether investing in CSR benefits or harms corporate profitability. They emphasise the need to strike a balance between value maximisation for stakeholders and profitability goals. Carroll (1991) supports this by arguing that a company's first responsibility is profitability, with legal, ethical, and charitable obligations following suit. Salvioni and Gennari (2020) proffer the "Stakeholder Theory," stating that incorporating sustainability into the business model increases organizational profitability by considering all stakeholders' expectations and concerns. In agreement, Osagie (2017) contends that incorporating CSR into the core business model indirectly creates an opportunity for improved development, sustainability, and profitability. As such, Chronopoulos (2021) suggests that top management's CSR approach has a major impact on firm profitability. Samidi *et al*. (2019) emphasize that CSR policies should be considered as more than just external obligations but as a proactive approach to improving profitability.

This article investigates the multifaceted relationship between CSR and the financial performance of a medium-sized organization, with a particular emphasis on a clothing manufacturing organization in KwaZulu Natal, South Africa. It explores the feasibility of CSR as a suitable method for financial improvement.

***Hyp*otheses**

The study is based on the following assumption:

H1: The implementation of CSR leads to the financial improvement of the medium-sized manufacturing organization in the eThekwini District Municipality in KwaZulu Natal, South Africa.

H1o: The implementation of CSR does not lead to the financial improvement of the medium-sized manufacturing organization in the eThekwini District Municipality in KwaZulu Natal, South Africa.

The following are sub-hypotheses:

H2: An increase in profitability increases the financial performance of the medium-sized manufacturing organization.

H2o: An increase in profitability does not increase the financial performance of the medium-sized manufacturing organization.

H3: An increase in production costs increases the financial performance of the medium-sized manufacturing organization.

H3o: An increase in production costs does not increase the financial performance of the medium-sized manufacturing organization.

Methodology

The research design and methods, the company that took part in the study, data gathering, measurement, and analysis will be discussed next. The nature of this investigation was quantitative. Through the application of CSR, it investigated the relationship between profitability and production costs and financial performance as a dependent variable. According to Bryman and Bell (2007), the quantitative method analyses the data gathered by statistical procedures. Thus, using statistical techniques, the scores were changed following the measurements of the pertinent factors. The study also used a panel data analysis. Panel data analysis, as defined by Curwin and Slater (2002), is the statistical examination of datasets that include several observations for every sampling unit. Compared to cross-sectional data, it has more degrees of freedom and less multicollinearity, which increases the effectiveness of econometric estimations (Bryman and Bell, 2007). This study employed regression analysis to compare pre- and post-CSR data collected over time from a clothing manufacturing company. The design of the investigation was also conclusive. The purpose of conclusive studies is to produce knowledge that decision-makers may use (Yin, 2008).

A non-probability, purposive sampling method was employed to select a business with five years of CSR participation and retained performance documents for analysis. The organization was a medium-sized manufacturing enterprise located in the eThekwini Municipality in the province of KwaZulu-Natal province of South Africa. The company, which was founded in 1996, began engaging in CSR in 2016. It has 50 full-time employees. The study focuses on a medium-sized enterprise, hence the preceding table (Table 1) illustrates the schedule of size standards in South Africa.

Table 1: Schedule of size standards of SMEs in South Africa

Type of Firm	Number of employees
Small	1-50
Medium	51-200

Source: Olawale and Garwe (2010)

Four years prior to the implementation of CSR, the SME experienced a significant decrease in its financial performance. The quarter-to-quarter financial ratio ranged from 1.1% to 25.4%, at an average of 17.5%. The average percentage is much lower than the industry range of financial ratios of between 3.9% to 20.8% (Stats SA, 2019). In addition, its production costs ranged from 15% to 25%, at an average of 20%. The average percentage is much higher than the industry range of production cost ratios of 6.7% (Stats SA, 2019). This affected the entire business performance.

The financial manager of the company that took part in the study collected pre- and post-CSR results from company records. The profitability and production cost statistics were stored in a Microsoft Excel folder. The collection of such data over time has a larger capacity to capture the variety of financial changes compared to the one-group post-test method, which collects only post-data after the changes have been implemented, raising validity concerns (Bryman and Bell, 2007). The researcher validated the data from the Excel folder. This was accomplished by comparing the data in the folder to the recorded data on file for accuracy. The pre-CSR data were quarterly statistics that represented the organization's performance in the three years preceding the implementation of CSR. The data ranges from the first quarter of 2013 to the fourth quarter of 2015. Post-CSR data demonstrate the company's performance three and a quarter years after CSR was implemented. This includes statistics from the first quarter of 2017 to the first quarter of 2020.

The profitability and production cost time-series data from the company's quarterly reports were analysed. A total of 52 observations served as the basis for the measurements. Westland (2010) asserts that there is no set minimum for the number of observations required to create a balanced data panel. However, according to Bryman and Bell (2007), fifty observations are fine, but more than 100 are advised. The Ordinary Least Square (OLS) regression model was the one that was utilized. Constraints on the data affected the decision. But the model gave the researcher the statistical approach that made it possible to successfully look at the link among the variables.

The OLS model used was as follows: $\textit{Financial Performance} = B_o + B_1\,\textit{Profitability} + B_2\,\textit{Production costs}$

Where B_o *is the constant*

B=coefficient of the independent variables

According to the aforementioned model, production costs and profitability determine financial performance. The data was analysed with the Statistical Package for Social Sciences (SPSS), version 25. It made it possible to properly analyse the CSR data that was acquired from the same company on a quarterly basis throughout a number of periods. As a result, the findings offered objective estimates (Yin, 2008). Additionally, the OLS was built on the Fixed Effects model, a statistical model in which the model parameters are fixed (i.e., non-random values) (Curwin and Slater, 2002). As such, the variables were gathered on a quarterly basis from the same company between the first quarter of 2013 and the first quarter of 2020.

To achieve the study's objectives, a normality test was performed using the Kolmogorov-Smirnov and Shapiro-Wilk tests for the constructs' overall scores. Table 2 displays the results of the normality tests for profitability and production costs.

Table 2: Normality tests for profitability and production costs

Kolmogorov-Smirnov[a]					**Shapiro-Wilk**		
	Group	Statistic	df	Sig.	Statistic	df	Sig.
Profitability	0	0.154	13	0.200*	0.901	13	0.164
	1	0.208	13	0.159	0.850	13	0.037
Production costs	0	0.213	13	0.139	0.811	13	0.012
	1	0.265	13	0.020	0.786	13	0.007

According to the statistical tests in Table 2, the data were normally distributed ($p>0.05$) (Curwin and Slater, 2002). As a result, the study was analysed using parametric tests, namely t-tests.

Presentation of Results and Discussion

This section examines the outcomes for pre- and post-CSR mean comparisons, as well as financial performance. Table 3 compares the means (in percentages) for profitability and production costs.

Table 3: Pre- and post-CSR percentage means comparison

No.	**Variable**	**Pre-CSR period (%)**	**Post-CSR period (%)**	**% mean difference (post – pre)**
1.	Profitability	17.52	36.60	+19.08
2.	Production costs	20.00	12.33	-7.67

The results in Table 3 show that the percentage mean statistics for pre-CSR profitability and production costs are 17.52% and 20.00% respectively. Furthermore, the percentage mean data for post-CSR profitability and production costs is 36.60% and 12.33%, respectively. Table 3 displays blended mean values for the two variables (profitability and production costs) from pre-CSR to post-CSR data. When comparing post-CSR to pre-CSR periods, they indicate a decrease in mean production costs and a rise in profitability. This demonstrates the positive impact of CSR in the organisation that took part in the study. As a result, the financial performance results of CSR adoption are examined, next.

Table 4: Financial performance results on the profitability and production costs

Regression	**Coefficient**	**t-statistic**	**Probability**
Constant (B_o)	0.570	3.416	0.003
Profitability	0.022	4.429	0.000
Production costs	-0.047	-8.714	0.000
R-squared	0.972	F-statistics	97.014
Adjusted R^2	0.962	Sum of Squares	5.830
Standard error of regression	0.100	Durbin-Watson statistics	1.133

Note: Regression data: 2013–2020 for 52 observations. The following OLS estimation is based on the equation: Financial performance = $B_o + B_1$ Profitability + B_2 Production Costs.

Table 4 shows that profitability has a statistically significant correlation with financial performance (t-value = 4.429, p-value = 0.000). The t-value exceeds the crucial value of 2.000 at the 5% level of significance (Curwin and Slater, 2002), yet the p-value is less than 0.05. The positive indication indicates that an increase in profitability improves the organization's financial performance. CSR explains 96% of the variance in financial success (adjusted $R^2=0.962$). Furthermore, the serial correlation is low, at 1.133, as opposed to the typical value of 1.760 at the 5%

level of significance (Curwin and Slater, 2002). The results show that production costs are related to and statistically significant to the company's financial performance, as indicated by the t-value of -8.714. The t-value exceeds the critical threshold of 2.000 at the 5% level of significance. The negative sign indicates that any reduction in production costs results in an improvement in the company's financial performance.

To ascertain if the normality and homogeneity of variances assumptions of the factorial ANOVA have been satisfied, box plots are used. According to Porkess (2005), the mean is a suitable indicator of central tendency since the populations it represents should have a normal distribution, or normality. The population that the data is sampled from should, according to the homogeneity of variance, have the same variance. The Bartlett's test was performed to determine whether the variances were equal across all samples (Curwin and Slater, 2002). Figure 1 summarises the findings of the Bartlett's test for homogeneity of variances.

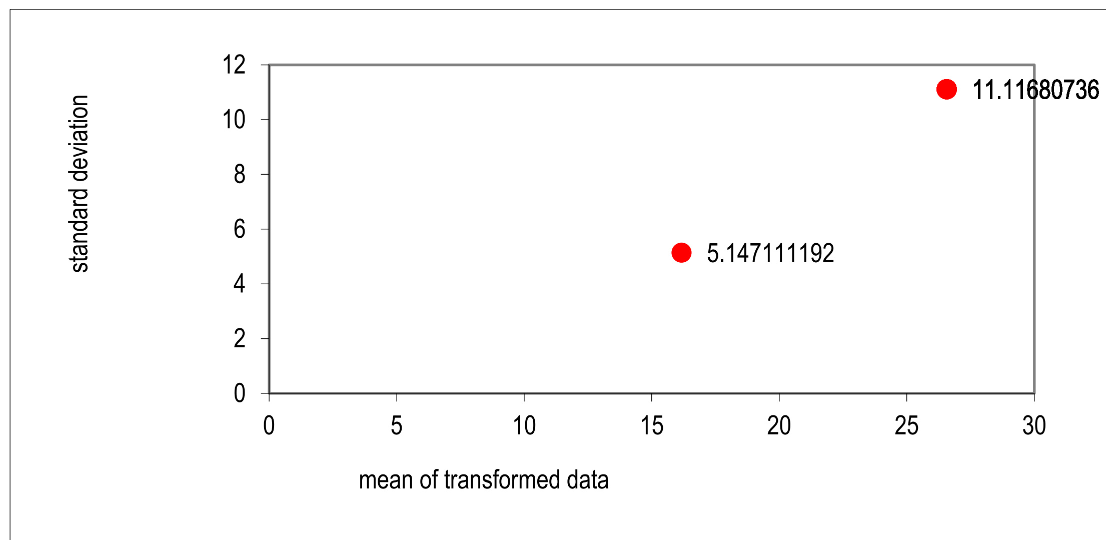

Figure 1: Bartlett's test for homogeneity of variances

In addition, Table 5 presents detailed results of Bartlett's test for homogeneity of variances for profitability and production costs. The consistency of the data across comparison groups verifies the premise of variance homogeneity, increasing the trustworthiness of subsequent statistical studies that rely on this assumption.

Table 5: Bartlett's test for homogeneity of variances

Variables	means of transformed data	standard deviations of transformed data	P-Value
Profitability	26,558	11,117	
Production costs	16,167	5,147	0.000

Bartlett's test p-value (p<0.05) demonstrates variance homogeneity, rejecting the null hypothesis. The p-value of 0.000 is low in comparison to the significance level of 0.05. Curwin and Slater (2002) conclude that there are distributional differences between the two portions of the time series. This also illustrates the influence of CSR on the organization that participated in the study. Table 6 presents Levene's equality test, which validates this.

Table 6: Levene's Test of Equality

F	T	Sig.
7.971	-7.002	0.000

Note: Fisher-Snedecor (F); t-statistics for equality of means (T); significant (sig)

Porkess (2005) describes Levene's test of equality as an inferential statistic that determines variance equality across samples. Levene's test of equality is a statistical approach that presupposes that the variances of the populations from which different samples are drawn are equal. As a result, the results in Table 5 show that the variances in the samples for pre- and post-data are similar (p-value 0.000). They fall below the statistically significant level of 0.05 (Curwin and Slater, 2002). The results are supported by the box plots in Figure 2.

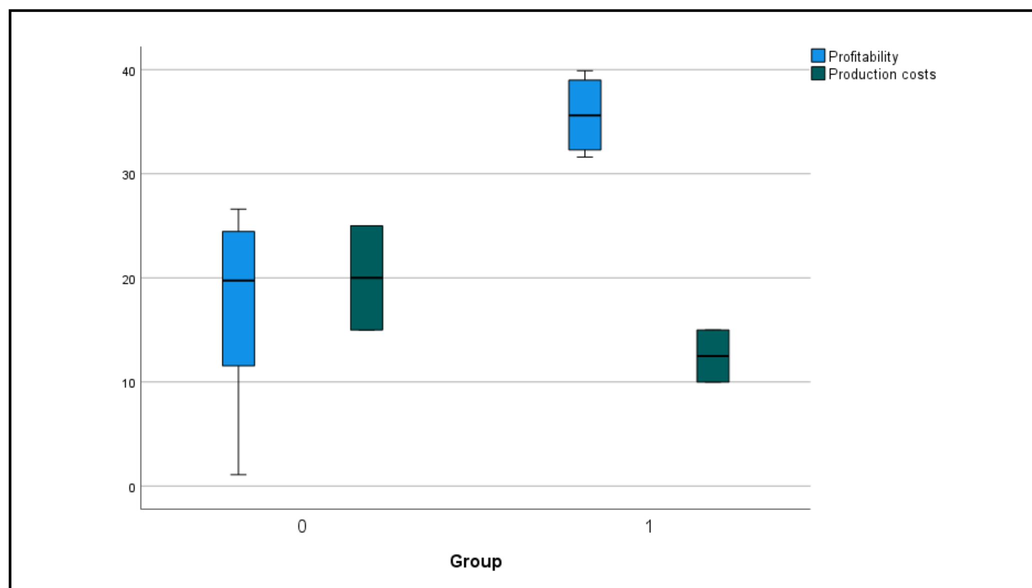

Figure 2: Box plots determining the normality and homogeneity of variance

X represents pre- and post-study periods
Y represents normality and homogeneity of variance data

Figure 2 illustrates that the mode of change between the pre- and post-CSR periods is comparable. Box plots demonstrate a comparable range of CSR findings. Statistical tests show that the prerequisites for variance homogeneity between the pre- and post-CSR periods have been met. This means that the two groups' variances are similar, allowing for more accurate and meaningful statistical comparisons.

Discussion

This study investigates the impact of CSR on financial performance in a selected medium-sized clothing manufacturing organization in the eThekwini District Municipality of KwaZulu Natal, South Africa. The study assessed the production and associated experience of a medium-sized manufacturing organisation that had implemented CSR. Quarterly time-series data on profitability and production costs were examined. The findings show that financial performance is linked to both profitability and production costs, with the latter influenced by CSR. This is consistent with Newman *et al*. (2020), who argue that CSR programmes can improve business revenues and performance by lowering production costs. Any improvement in profitability improves the financial performance of the organization. As a result, any reduction in production costs improves the company's financial success. According to Jeon *et al*. (2019); Gupta and Gupta (2019); and Newman *et al*. (2020), this method uses a strategic CSR approach to boost profitability and reduce production costs inside an organisation.

Osagie (2017) indicates that any organization that includes CSR as a core business is not doing anything exceptional for society, but it is indirectly providing additional opportunities for better development, success, and profitability for its firm. This assertion is complemented by Rasheed *et al.* (2020) who maintain that corporations might help end poverty whilst also making a profit by using a pro-poor business strategy like CSR. South African organizations could improve the effectiveness of their processes and implement CSR strategies and practices to help them achieve higher financial goals and promote organisational change (Smith, 2007). This must be founded on an awareness of the economic factors that drive CSR and the relevance of improving financial performance in medium-sized manufacturing organizations. In addition to achieving the study objectives, the following conclusions can be drawn about the CSR philosophy:

i. Research indicates a good relationship between CSR and financial performance in organisations (Ruf *et al*., 2001; Ghazzawi and Palladini, 2014; Li *et al*., 2020).
ii. CSR improves product quality and efficiency, leading to a more sustainable future for both the firm and the community it serves (Javed and Husain, 2021).

iii. To maximise success, design a thorough performance policy that integrates CSR initiatives with financial performance (Fanti and Buccella, 2018).

The study focused on a medium-sized clothing manufacturing company in the eThekwini District Municipality. To begin with, the investigation was conducted at one company that has implemented a CSR. The results cannot be extended to other enterprises in the sector because South Africa has 85 891 formal SME organisations (SBI, 2018). In addition, it intended not to investigate the method employed during CSR execution, such as the persons involved in the implementation. Furthermore, the study used quarterly time series data to determine the pre- and post-financial effects of the CSR approach. Finally, due to data constraints, the econometric model used was OLS. Future research should use the more advanced Johansen VAR approach, which is based on huge datasets.

Conclusion

CSR initiatives have a slow and indirect impact on business financial performance through organizational intangibles such as innovation, brand image and staff morale (Cui *et al*., 2015; Le Thanh *et al*., 2021). This is because when a company engages in CSR, it develops new ways to satisfy its economic, social and environmental responsibilities without incurring additional costs. Emanating from its good practices, the firm obtains a favourable reputation, and people are motivated to work for a respected organization. Properly implemented and managed, the CSR programs results in improved financial performance in manufacturing organization. Hence, the results indicate the relationship between financial performance with both profitability and production costs after the implementation of CSR. It is an approach that takes advantage of a focused organizational CSR programs to improve profitability (Jeon *et al*., 2019) and the reduction of production costs (Gupta and Gupta, 2019; Newman *et al*., 2020). This study does not address questions about the long-term viability of CSR strategies after implementation. This includes the application of CSR to a broader range of economic activities, including the public sector. The nature of this research did not allow for a thorough examination of these issues. It is proposed that future studies address the following concerns in further detail:

- Determining when to use CSR for sustainable performance;
- Applying CSR to other industries;
- Conducting a random sample of registered manufacturing SMEs to assess generalizability.

The study investigated the influence of CSR on the financial performance of a selected medium-sized clothing manufacturing organization in the eThekwini District Municipality of KwaZulu Natal, South Africa. The study revealed that financial performance is related to profitability and production costs in the face of CSR implementation. Any improvement in profitability improves the financial performance of the organisation. Consequently, a reduction in production costs improves the business's financial performance.

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