Impact of Corporate Social Responsibility on Financial Performance: Evidence from SMEs in Quetta

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The study explored the relationship between financial performance of businesses and CSR among Small and Medium Enterprises (SMEs) working in Quetta city. Quetta, like other cities in Pakistan faces many societal issues, and SMEs can act in minimizing some of those issues. The population for the current study was the SME's registered with SECP (Security Exchange Commission of Pakistan) operating in Quetta, City, with the sample of 278 SMEs. A self-administered questionnaire to measure CSR was employed to collect data from SMEs. Multiple linear regression was used to analyze the impact of CSR practices on financial performance of SMEs of Quetta city. The results indicated that there is a significant impact of CSR on the financial performance of SMEs in Quetta. Furthermore, with the help of regression analysis the impact of each dimension of CSR (Economic, Philanthropic responsibilities, Legal Obligation and Ethical Responsibility) was studied. The results showed significant impact of Economic and Philanthropic responsibilities on financial performance, but Legal obligation and Ethical Responsibility showed a negative relationship with Financial Performance. This study further suggested that businesses must involve themselves in the CSR activities as it has a positive impact on the financial performance of businesses by contributing to their positive image building.

1. Introduction

Businesses are a means by which individuals can earn monetary profit, and this gain is the basic objective of every firm, large or small (Giannopoulos et al., 2024; Awaysheh, 2020; Hayes, 2019; Gunawan, 2017). The positive contribution of businesses is extremely important in every economy, along with the support of government policies bringing a positive change in the development of any economy (Al Frijat et al., 2024; Bertucci & Alberti, 2003). Historically, a firm's primary role was just to create economic value and maximize wealth and earn profit (Aftab et al., 2024; Ali Danish, & Asrar-ul-Haq, 2020). However, businesses are now implementing policies and strategies related to Corporate Social Responsibility (CSR) and are now responding to the increasing social pressures to rethink how they operate by adopting actions to reduce any harm they might do (Khan et al., 2023). Due to these pressures, businesses must operate ethically, morally, and economically in responsible ways (Agyemang & Ansong, 2017). According to Carroll's (1991) model the prime objective of business is to earn monetary benefit, but while earning the monetary benefit the firm must not forget the responsibility they have towards society (Awaysheh, 2020). Moreover, many studies have shown that Corporate Social Responsibility has a direct influence on the overall performance, especially on the financial performance of a firm as well (Al-Shammari et al. 2022; Maury, 2022; Ghardallou & Alessa 2022; Sindhu, 2017).

In underdeveloped countries like Pakistan there isn't much understanding regarding the relevance of CSR (Ehsan & Kaleem, 2012; Sajjad et al., 2014). Although Pakistani firms are now gradually getting interested in CSR; however, their number and investment still need to be studied. Even globally although the practice of CSR has been studied however the literature in this regard it is still scarce (Akben-Selcuk, 2019). Past studies have taken CSR as a composite variable and checked for its impact with other variables, like customer satisfaction, purchase intention, brand image and firm's financial performance (Awan et al., 2019; Sindhu et al., 2017).

This study was intended to examine how Corporate Social Responsibility affects financial performance of SMEs in Quetta, as almost all the financial activities of the province are carried out in Quetta city and the majority of registered SME's are in this city, so it is important to carry out this study in Quetta.

2. Literature Review

2.1 Corporate Social Responsibility

The idea of Corporate Social Responsibility, in the context of Pakistan is a new phenomenon ((Thottoli, & Thomas, 2023; Shahzad, 2022; Usunier et al., 2011; Ali et al., 2020; Sindhu et al., 2017). Lack of education, limited worldwide market exposure, and dearth of information contribute to this condition and due to these factors, Pakistani business owners are unaware that investing in CSR related actions improves the financial and non-financial performance of the organizations (Sindhu et al., 2017). Moreover, although literature on CSR in larger firms is available, but very few studies can be found in the context of SMEs (Jain, Vyas, & Chalasani, 2016; Thompson & Smith, 1991).

Carroll and Shabana (2010) and Yunis et al. (2017) recommended that companies carry out economic, legal, ethical as well as philanthropic responsibilities to establish a positive impression. Corporate Social Responsibility, according to Carroll (1991) means "The social responsibility of business that encompasses the economic, legal, ethical, and discretionary [later referred to as philanthropic] expectations that society has from organizations at a given point in time" (Carroll 1979, p. 500; Carroll, 1991, p.283; Carroll et al., 2003; Carroll et al., 2010).

2.2 Economic Responsibility

According to Carroll (1991) model, an organization's primary and most important function/objective is to achieve financial goals and earn monetary benefits. The firm must operate in accordance with an economy's economic norms, values, and policies, paying fair wages to employees, and imparting profit to shareholders (Yunis et al., 2017). Economic responsibility also requires that an organization must produce those goods and services which are demanded by the citizens of the society (Carroll et al., 2010).

2.3 Legal Obligation

The Carroll model's legal obligation, or legal responsibility, indicates that an organization's operations should obey the rules and regulations of the country they are operating in (Carroll 1991, 2010). In order to survive, the organization must follow the laws as a good corporate citizen (De-Schutter, 2008).

2.4 Ethical Responsibility

Ethical responsibility requires an organization to follow the moral standards of the society in which it operates (Javed et al. 2020). Ethical obligation is huge, and most organizations do it voluntarily (Carroll et al., 2003; Yunis, 2017).

2.5 Philanthropic Responsibility

According to Carroll's model, CSR also includes philanthropic responsibility so that a positive corporate image could be built (Carroll et al., 2010; Caroll, 1991). It involves an organization's response to its need to become a good commercial citizen, such as by actively promoting society's welfare and by uplifting its citizens. An organization's philanthropy improves society, promotes social harmony, and eliminates discrimination.

2.6 Financial Performance

Every business seeks profit. Some organizations make a lot of money, some make little, and some lose money (Barauskaite, & Streimikiene, 2021; Ahmed et al., 2011). Financial Performance is measured using many of the same methods as CSR (Awaysheh, 2020). Financial Performance is one of the most widely studied indicators of Corporate Social Responsibility's strategic value , and Philanthropic Responsibility can directly affect a firm's financial well-being. If the firm is financially successful, it may donate some of its profits to charity (Orlitzky et al., 2003).

2.7 Corporate Social Responsibility in Small and Medium Enterprise

Small businesses are defined as having less than fifty employees and a financial statement turnover of less than 10 million Euro (European Commission, 2003b), but according to European Union Commission as well as some other researchers (Russo & Perrini, 2010) small enterprises have fewer than ten employees, medium enterprises have between ten and fifty employees, and large enterprises are those with more than fifty employees. Most CSR research focuses on large companies, not SMEs (Awan et al., 2019; Turyakira, 2018). SMEs constitute 90 % of businesses in Pakistan and 40% to the country's GDP (SMEDA, 2013). SMEs are a major employer in Pakistan, although they have been criticized for not meeting international standards in terms of fair wages, child labor, safety, and health facilities (Ahmed & Raziq, 2017; Bhutta, 2006). Also most SME owners are from rural areas and lack basic education, (Sajjad, et al., 2014).

2.8 Theoretical Framework

This study employed Carroll's Model (1991) because it describes an organization's social responsibility in a comprehensive way.

Figure No 1: Conceptual Framework
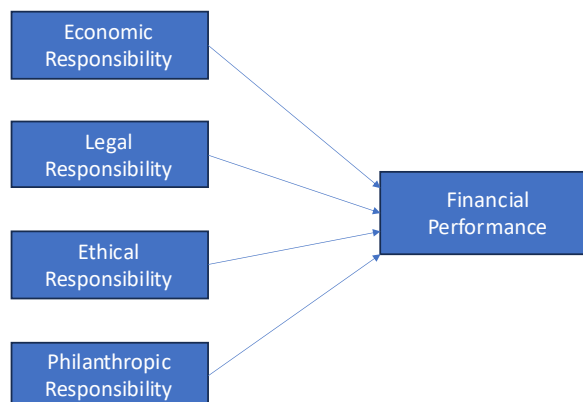
2.9 Carroll's Model

According to Carroll (1991), the primary and most important function of any organization is to achieve its financial/economic objectives and profit shareholders. After economic responsibility, legal accountability requires an organization to meet its financial and economic goals within the law. According to Carroll's paradigm, an organization's third most essential obligation is ethical responsibility, which is larger than the other two. Ethical obligation is far broader than economic and legal responsibility. The last but most crucial responsibility is philanthropic responsibility, where the firm must operate as a good corporate citizen. Figure 1 presents the conceptual framework.

2.10 Hypotheses of the Study

H_1: There would be significant impact of CSR on the Financial Performance of SMEs of Quetta city.

H_{1A}: There would be significant impact of Economic Responsibility on financial performance of SMEs in Quetta City.

H_{1B}: There would be significant impact of Legal Obligation on financial performance of SMEs in Quetta City.

H_{1C}: There would be significant impact of Ethical Responsibility on financial performance of SMEs in Quetta City.

H_{1D}: There would be significant impact of Philanthropic Responsibility on financial performance of SMEs in Quetta City.

3. Methodology

3.1 Population & Sample

The total number of registered SMEs in Quetta city is 967 (SECP, Quetta Directorate), which is the population for this study and out of which 278 SMEs were taken as the sample. The sample size of 278 can be considered appropriate for regression analysis (Saunder et al., 2012). Pilot study revealed that respondents were not willing to participate and thus it was decided to opt non-probability sampling. Therefore, convenience sampling was utilized to get the desired number of responses.

3.2 Data Analysis and Testing Tools

Data was collected through a self-administered questionnaire comprising closed-ended questions. For pilot study 40 responses were collected from the sample, and its reliability and validity were tested before continuing with data collection from the remaining sample.

3.3 Instruments for the Measurement of Variables

3.3.1 Dependent variable: Financial Performance

The instrument employed for measurement of financial performance consisted of following subscales:

(i) **Market share and Size compared with competitors**: Market share, Size & Performance, were measured using five-point Likert scale (Anlesiny et al., 2014; Chongo, 2017; Deshpande et al., 1993; Masurel, 2015; Robert et al., 1992) with three items. The Cronbach's Alpha for the scale was found to be 0.856.

(ii) **Relative to our largest competitor**: Performance Relative to largest competitor, was measured using five-point Likert scale (Anlesiny et al., 2014; Chongo, 2017; Masurel, 2015) and the Cronbach's Alpha for the said scale was found as 0.845, for the four items.

(iii) **Growth** dimension was measured using three items using five-point Likert scale (1 = much worse than competitors, 5 = much better than competitors). The Cronbach Alpha of the adopted scale was 0.892.

(iv) **Profitability Dimension** (adopted from Fauzi et al., 2009; Ventakraman, 1989). Profitability Dimension consisted of five items, the Cronbach's Alpha for the scale was 0.916, using Five-point Likert scale (1 = much worse than competitors, 5 = much better than competitors).

3.3.2 Independent variable: Corporate Social Responsibility

To measure the Corporate Social responsibility the measuring tool was divided into 04 broad constructs namely; Economic responsibility, Legal Obligation, Ethical responsibility and Philanthropic responsibility respectively (Baden, 2016, Carroll,1991). To measure the economic responsibility Likert scale was used, and for the five items the Cronbach's Alpha was .892. The Legal Obligation consisted of five items with Cronbach's Alpha 0.631. Ethical responsibility had five items, with the Cronbach Alpha **0**.929. Lastly, Philanthropic responsibility also had five items with the Cronbach's Alpha 0.741.

3.4 Statistical Analysis

3.5 Exploratory Factor Analysis

Exploratory Factor Analysis was used to test model fit because the testing tool's items had to be assessed for suitability for the current study's sample demographics. Al-Shareef et al. (2015) conducted reliability and validity in three steps. Skewness and Kurtosis verified data in the first step. The second stage was to verify data reliability using Cronbach's Alpha. E.F.A was used to validate the data in the third step.

3.6 Multiple Linear Regression

CSR's impact on Quetta's SMEs' financial performance was examined using multiple linear regression. This technique is suitable for exploring the impact of independent variables (CSR) on dependent variables, which is Financial Performance. (Saunders et al., 2009) IBM SPSS statistics 20 was used for analysis and results.

4. Results

4.1 Pilot Study

Pilot study was conducted; 40 SME owners participated in the pilot study to ensure the reliability of the tool being used. The results of pilot study are given in Table 1. The internal consistency of all variables was found to be satisfactory.

Table No 1: Internal Consistency Values of the Scale

Scale	Cronbach's Alpha
Economic Responsibility	0.892
Legal Responsibility	0.631
Ethical Responsibility	0.929
Philanthropic Responsibility	0.741
Market share Size and Performance	0.856
Relative to largest Competitor	0.845
Growth Dimension	0.892
Profitability Dimension	0.916

4.2 Main Study

Table No 2: Descriptive Statistics of Major Variables

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Economic Responsibility	278	1.00	5.00	2.8820	.75403	-.062	-.023
Legal Obligation	278	1.00	5.00	2.8201	.71186	-.074	-.424
Ethical Responsibility	278	1.00	5.00	2.2719	.78672	.801	.811
Philanthropic Responsibility	278	1.00	5.00	4.0072	.64351	-.558	.940
Market Share Performance	278	1.00	5.00	4.0468	.54243	-.873	.232
Relative to Largest Competitors	278	1.00	5.00	3.7833	.65373	-.617	1.055
Growth Dimension	278	1.00	5.00	3.9700	.55095	-.735	.896
Profit Dimension	278	1.00	5.00	3.5050	.78001	-.463	.407
Valid N (listwise)	278						

Table 2 demonstrates the descriptive statistics of the major variables used in the current study, Skewness as well as Kurtosis were identified to check the normality of the data. The results presented indicate the data was normally distributed and further analysis can be conducted.

Table No 3: Exploratory Factor Analysis Pattern Matrix

	Component							
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
ER1			.793					
ER2			.900					
ER3			.873					
ER4			.804					
ER5			.786					
LO1						.804		
LO2						.824		
LO3						.812		
LO4						.732		
ET R1	.788							
ETR2	.878							
ETR3	.935							
ETR4	.888							
ETR5	.914							
PR1				.878				
PR2				.853				
PR3				.944				
PR4				.935				
MSSP1								.794
MSSP2								.919
MSSP3								.933
RLC1					.849			
RLC2					.891			
RLC3					.770			
RLC4					.719			
GD1							.581	
GD2							.989	
GD3							.989	
PD1		.724						
PD2		.940						
PD		.845						
PD4		.883						
PD5		.842						

The EFA results are given in Table 3. The literature recommends the acceptable value for EFA between 0.300 and 0.400 (Iskamto, 2022), for the current study 0.400 threshold was adopted, thus any items with values below 0.400 were dropped. To obtain the pattern matrix, PROMAX factor analysis rotation was used.

The hypothesis of the current study H_1, $H1_A$, $H1_B$, $H1_C$ and $H1_D$ were tested using the Multiple Linear Regression model. The assumptions of simple regression were tested before continuing with the analysis. The results of the assumption diagnostic tests are presented in Table 4.

Table No 4: Multiple Linear Regression Analysis: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	36.738	3.001		12.243	.000		
ERT	.652	.102	.299	6.399	.000	.731	1.368
LOT	.107	.162	.030	.659	.511	.775	1.290
ETRT	-.005	.131	-.002	-.038	.970	.772	1.295
PRT	2.498	.185	.582	13.486	.000	.856	1.168

From Table 4 it is evident that both the VIF as well as Tolerance values are within acceptable range, demonstrating the existence of no multi-collinearity.

Table No 5: Model Summary of the Regression Analysis

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin Watson
				R Square Change	F Change	f1	f2	Sig. F Change	
.751	.564	.558	7.51174	.564	88.253	4	273	.000	2.176

Table 5 shows the findings of regression analysis, the Durbin-Watson value of 2.176 lies within the acceptable range of 1.5-2.5. As the value is within the range it can be concluded that the residuals from the regression analysis are not auto correlated.

Table 4 and Table 5 present the results of the Multiple Linear Regression; to predict CSR, the predictor variables were Economic Responsibility, Legal Obligation, Ethical Responsibility and Philanthropic Responsibility. The overall model was significant F (4,278) =88.253, $p< .05$ and accounted for 55.8% of the variation in financial performance. Economic Responsibility ($\beta= .652$, $p< .05$) and Philanthropic Responsibility ($\beta=2.498$, $p< .05$) were significant predictors, whereas Legal Obligation ($\beta= .107$, $p> .05$) and Ethical Responsibility ($\beta= -.05$, $p> .05$) were insignificant.

The study further tested the relationship of each measure of CSR with financial performance. There were four measures of CSR used namely, Economic Responsibility, Legal

Obligation, Ethical Responsibility and Philanthropic Responsibility and the results of the hypotheses are given in Table 6.

Table No 6 Hypothesis		β	Significance	Decision
H1	There is a Positive impact of CSR on FP	.558	$p < .05$	Accepted
H1A	There is a Positive impact of Economic Responsibility on FP	.652	$P < .05$	Accepted
H1B	There is a Positive impact of Legal Obligation on FP	.107	$P > .05$	Rejected
H1C	There is a Positive impact of Ethical Responsibility on FP	-.05	$P > .05$	Rejected
H1D	There is a Positive impact of Philanthropic Responsibility on FP	2.498	$P < .05$	Accepted

4.3 Discussion

The present study intended to determine the impact of CSR on the financial performance of SMEs working in Quetta city. There are numerous studies indicating varying nature of relationship between CSR and financial performance (Cho et al., 2019). However, most of them show a positive relationship of CSR with financial performance (Agyemang et al., 2017). In the present study a linear and significant relationship was found between Corporate Social Responsibility and financial performance. CSR practices explained 55.8% of the variation in financial performance of SMEs of Quetta. Hence H_1 was accepted, with the finding that CSR and Financial Performance are associated (Alshareef et al., 2015; Anlesiya et al., 2014; Chongo, 2017).

H_{1A} was accepted, with the finding that Economic Responsibility has a positive impact on the financial performance of SMEs of Quetta, a finding that is consistent with the studies by Awan et al., (2019), Yunis et al., (2017) and by Carroll (1991). The results revealed the fact that the prime objective of every firm is to earn monetary benefit because if the firm is not earning good monetary profit the chances are that the firm may close. However, if the firm is having good monetary returns it will invest in CSR related activities such as giving fair wages to the employees.

H_{1D} was also accepted, and the findings showed a significant relationship of philanthropic responsibilities with financial performance. In CSRs' philanthropic measure the SME owner's religious convictions might also matter. This is evident from the fact that religion has a large impact on Pakistan's culture as SMEs owners have previously also reported that they do not even keep record of the philanthropic money they give (Awan et al., 2019).

Hypothesis H_{1B}, that legal obligation improves SMEs' financial performance in Quetta City, was rejected. When a firm meets its legal obligations It sends a positive message to its stakeholders (creditors, employees, government etc). Also, this can help businesses to get loans at low interest

rates and can even make government agencies apply lenient tax policies on such organizations thus reducing the risk of bankruptcy for these organizations (Wu et al., 2020).

H_{1C}, that ethical responsibility improves financial performance, was rejected. The findings of the study are aligned with the work of Kabir, and Chowdhury (2023). However, the results are inconsistent with previous studies on SMEs in different geographical areas around the world (Agyemang et al., 2017; Awan et al., 2019; Choongo, 2017; Sindhu et al., 2017). The demographic characteristics and cultural diversity of Quetta city with varying ethical beliefs and practices might be one of the factors for this contradiction with past studies.

One of the reasons that CSR is not fully implemented in SMEs in Quetta might be the overall economic condition of these businesses as well as that of the country. As other studies also suggest that implementation of CSR is probably hindered by resource constraints (Ng et al., 2022).

5. Conclusion

The purpose of the study was to examine the impact of CSR on financial performance of SMEs of Quetta. The results overall showed presence of a significant relationship between the two variables which means that if firms invest in CSR, they might have better financial returns. Businesses can invest in CSR, which will not only bring them financial benefits but will also provide an opportunity for them to uplift their society (Khan et al., 2023) . As it is an obligation for everyone to contribute for the betterment of society.

5.1 Limitations

The current study is based on Carroll's model. However, other CSR models can be tested in different contexts to develop a comparison of the findings. Random sample could also be not taken which affects generalizability of the results.

5.2 Implications and recommendations

Studies can be conducted on the relationship between CSR and religious beliefs and its impact on society and financial performance of the business as religion seems to play an important role in Quetta's context. This study provides a reference point for future researchers to work on the businesses in Quetta as it is the largest and most populous city of the province. Current study was cross-sectional in nature. A longitudinal study can also add useful insights to the existing literature on the topic.

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