

Research Paper

Examining the impact of corporate social responsibility on SMEs' financial performance – A South African Perspective

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Abstract

This study examines the intricate interactions between corporate social responsibility (CSR), eco-friendly behaviour, corporate image, and financial performance (FIP) within the context of Small and Medium Enterprises (SMEs) in South Africa. The study involves 360 participants from various SMEs and employs a partial least squares structural equation modelling (PLS-SEM) approach to analyze the complex interdependencies between these critical variables comprehensively. The research aims to unveil a paradox within SMEs by exploring how pro-environmental behaviour moderates the influence of CSR initiatives and financial performance. The findings from the study revealed that CSR significantly affects FIP, corporate image, and eco-friendly behaviour. In addition, the empirical evidence delineated from the analysis indicated corporate image and eco-friendly behaviour directly and substantially influence SMEs' FIP. The research also confirmed the favourable moderating influence of pro-environmental behaviour on the nexus between CSR and FIP. The outcome sought to extend academic understanding of CSR dynamics and also offer practical guidance for SMEs and policy-makers seeking to enhance sustainability and financial success through responsible business practices in the unique socio-economic context of South Africa.

Keywords: Corporate Social Responsibility, Eco-friendly behaviour, Corporate image Financial performance, Pro-environmental behavior, Social Responsibility

Introduction

Integrating CSR has emerged as a critical aspect of organizational strategies in contemporary business landscapes, emphasizing ethical and sustainable practices (Khan et al., 2022). This paper seeks to delve into the complex link between CSR, eco-friendly behaviour, corporate image, and financial performance (FIP), specifically focusing on SMEs operating within the dynamic context of South Africa. As the business environment evolves, SMEs are increasingly recognized as crucial to sustainable development (Maqbool and Nazir, 2023). However, the specific mechanisms through which CSR practices impact eco-friendly behaviour (EFB), corporate image (CIM), and financial performance in SMEs, particularly in South Africa, remain an area ripe for exploration.

While the potential benefits of CSR in enhanced corporate image and FIP are documented in erstwhile studies (Pham and Tran 2020; Scarpellini et al. 2020), understanding the interplay between CSR and pro-environmental behaviour is essential. The paradox lies in uncovering whether integrating eco-friendly practices within CSR initiatives amplifies or diminishes the positive outcomes for SMEs in South Africa (Islam et al., 2023). As the pressure to address environmental concerns intensifies globally, this research seeks to provide clarity on the strategic implications of coupling CSR with pro-environmental behaviour within SMEs, unveiling the potential synergies or tensions between these dimensions (Arian, Sands and Tooley, 2023; Guan et al. 2023). With its unique socio-economic landscape and environmental challenges, South Africa is an ideal context for this study. The country's SMEs face distinct challenges and opportunities shaped by economic disparities, legislative frameworks, and cultural diversity. Understanding how CSR, eco-friendly behaviour, and corporate image intersect within this context is crucial for developing targeted strategies that align with the country's socio-economic goals while fostering sustainable business practices (Khan and Fatma, 2023; Li et al., 2023). By exploring these dynamics, the research aims to contribute to academic literature and the practical knowledge base for SMEs and policy-makers in South Africa.

The research problem can be encapsulated in the overarching question: How do CSR initiatives influence eco-friendly behaviour, corporate image, and financial performance in SMEs operating in South Africa, and to what extent does pro-environmental behaviour moderate these relationships? This question forms the crux of the research problem, driving the need for a comprehensive investigation into the unique dynamics that underlie CSR practices and their outcomes within the South African SME sector. By addressing this problem, the paper aims to provide actionable insights for SMEs, offering a roadmap for integrating CSR

and PEB to navigate the complexities and capitalize on the potential synergies within this paradoxical relationship.

This research substantially contributes to the resource-based view (RBV) theory by exploring the empirical analysis within the context of SMEs in South Africa. The paper extends the RBV perspective by elucidating how pro-environmental behaviour acts as a moderator, shaping the leveraging of resources for SMEs. The theoretical contribution lies in the nuanced understanding of how CSR initiatives and environmentally conscious practices can create a unique resource bundle, fostering competitive advantage and sustainable financial outcomes for SMEs (Mardani et al. 2020; Nurhilalia et al. 2019). Furthermore, from a practical standpoint, this research provides valuable guidance for South African SMEs seeking to navigate the CSR landscape effectively. Identifying the moderating role of pro-environmental behaviour offers actionable insights for businesses aiming to improve their CIM and financial performance. The findings suggest that SMEs can strategically leverage CSR initiatives by incorporating eco-friendly practices, thereby contributing to societal and environmental well-being and strengthening their market position and economic sustainability. This research offers practical implications for SMEs, guiding them toward a more holistic and integrated approach to CSR that aligns with the unique challenges and opportunities in the South African business environment.

Moreover, the novelty of this research lies in its exploration of the paradoxical relationship between CSR, EFB, and FIP within the context of SMEs in South Africa. By unveiling the moderating effect of pro-environmental behaviour, the study introduces a novel perspective on how businesses in emerging economies can strategically navigate the complex interplay of social responsibility and FIP. The research enriches the discussion on environmental discourse by offering a comprehensive assessment of the conditions under which the positive effects of CSR on FIP are most pronounced. The focus on SMEs adds novelty, as these entities play a vital role in the economic landscape, and understanding their dynamics in the context of CSR and environmental responsibility is crucial for academics and practitioners. Thus, this research extends the RBV theory by providing context-specific insights into the relationship between CSR, eco-friendly behaviour, corporate image, and financial performance among SMEs in South Africa. The practical contributions offer actionable recommendations for businesses, emphasizing the strategic value of integrating pro-environmental practices into CSR initiatives.

The subsequent sections of this paper are outlined as follows: Section Two reviews current literature works. Section Three details the methodology, data, and econometric approaches employed in this research. Empirical results and discussion are presented in Section Four. Finally, Section Five encapsulates the research's conclusion and implications.

Related Works and Hypothesis Development

Theoretical underpinning

The RBV proposition presents a valuable lens for exploring the interplay between CSR, eco-friendly behaviour, corporate image, and FIP, especially when considering the moderating influence of PEB (Barney, Wright, and Ketchen Jr 2001; Nurhilalia et al. 2019). A firm's competitive edge, according to RBV, originates from its remarkable and priceless resources, which are challenging for rivals to imitate. (Barney 1991). In the context of the study on CSR, eco-friendly behaviour, and financial performance, RBV suggests that integrating pro-environmental practices becomes a distinctive resource that enhances the firm's capabilities (Ojo, Tan, and Alias, 2022). As a moderating factor, pro-environmental orientation strengthens the relationship between CSR activities and eco-friendly behaviour, creating a resource-based advantage for firms that align social responsibility with environmentally sustainable practices.

Moreover, the RBV perspective emphasizes the function of indisputable assets, such as a corporate image, in sustaining a competitive advantage (Omoko et al., 2023). When examining the effect of CSR on CIM, EFB and FIP, the theory suggests that firms adopting pro-environmental behaviours may leverage these activities to enhance their reputations. The positive moderation effect of pro-environmental orientation implies that eco-friendly practices reinforce the link between CSR and CIM and contribute to superior financial performance (Hongxin et al., 2022). In essence, the RBV theory underscores the strategic importance of pro-environmental orientation in augmenting the resource-based advantages derived from CSR initiatives, ultimately influencing corporate image and financial outcomes positively (Ahmad et al. 2021; Li et al. 2023)

Hypothesis Development

CSR and financial performance nexus

The nexus between CSR and FIP is complex and dynamic, with organizations increasingly recognizing the interconnected nature of their social and environmental responsibilities and their impact on FIP. Engaging in CSR activities, such as ethical business practices, environmental sustainability, and community involvement, can contribute to positive FIP in various ways (Scarpellini et al., 2020). CSR can improve a business's reputation and brand perception, fostering a sense of trust and allegiance among consumers and benefitting revenue and market share (Le et al., 2023). Ye and Dela (2023) also denoted that responsible and sustainable business practices may lead to cost savings through enhanced operational performance and resource management. Investors also show a growing interest in companies with firm CSR commitments, potentially attracting more capital and favourable financing terms (Ye and Dela, 2023). Hence, a strategic

and genuine commitment to CSR can create a positive feedback loop, benefiting the enterprises and firm stability (Hongxin et al., 2022; Pfajfar et al., 2022). Based on this argument, this research proposes that:

H1: CSR positively affects FIP.

CSR and eco-friendly behaviour nexus

CSR and EFB share a symbiotic relationship, representing a commitment by businesses to operate sustainably and responsibly. CSR involves a company's efforts to contribute positively to society, and one crucial aspect of this is adopting eco-friendly practices and EFB (Yuan and Cao, 2022; Zhou, Jia, and Yang, 2022). Organizations that embrace CSR often integrate environmentally responsible initiatives into their operations, recognizing the interconnectedness between business activities and the ecological system (Jiang et al., 2022). By prioritizing EFB, companies reduce emissions, mitigate environmental impact, and participate in international initiatives to combat atmospheric warming. This relationship aligns with societal expectations for ethical business practices and enhances a company's reputation, fostering trust among environmentally conscious consumers (Deng et al. 2022). Ultimately, incorporating CSR and eco-friendly behaviour represents a proactive approach to sustainability, reflecting a genuine commitment to business success and the environment. Accordingly, the research suggests that:

H2: CSR positively affects EFB.

CSR and corporate image nexus

CSR initiatives, which encompass an enterprise's dedication to ethical, financial, social, and ecological responsibilities, are crucial in shaping and enhancing corporate image (Luo and Qu, 2023). When a company actively engages in socially responsible practices, such as environmental sustainability, philanthropy, and ethical business conduct, it fosters a positive perception among stakeholders, including customers, employees, investors, and the broader community (Ali, Danish, and Asrar-ul-Haq 2020). A strong CSR program contributes to societal welfare and creates a favourable image for the company, portraying it as a socially conscious and responsible entity (Khan and Fatma, 2023). This positive perception, in turn, can enhance brand loyalty, attract socially conscious consumers, and even influence investment decisions. Conversely, a lack of CSR or involvement in controversial activities can tarnish a company's image, leading to reputational damage and potential negative consequences for the business. Therefore, the link between CSR and CIM is pivotal in today's socially aware business landscape. Therefore, this research suggests that:

H3: CSR positively affect the corporate image of SMEs.

Relationship between corporate image and financial performance

The link between corporate image and financial performance is intricately intertwined, representing a dynamic interplay between perception and reality in the business realm. A positive corporate image, encompassing factors such as brand reputation, public perception, and stakeholder trust, often translates into enhanced financial performance (Vuong and Bui, 2023). A strong and favourable corporate image can attract customers, investors, and partners, fostering a sense of confidence and loyalty (Aledo-Ruiz, Martínez-Caro, and Santos-Jaén 2022). Consumers are more likely to select goods or services from a business with a good reputation, and investors could be more willing to back a reliable and stable company. Additionally, Yin, Song, and Zeng (2022) asserted that a positive corporate image could facilitate access to capital, improve credit terms, and create a more favourable business environment. Conversely, a negative image, whether due to ethical concerns, poor corporate governance, or other factors, can erode trust, diminish customer loyalty, and impact financial performance adversely. Therefore, managing and enhancing corporate image is not just a matter of perception; it is a strategic imperative with tangible implications for a company's bottom line (Isaksson and Kiessling 2021; Jia et al. 2023). Hence, the research proposed that:

H4: CIM positively affects FIP.

Eco-friendly behaviour and financial performance nexus

The interplay between EFB and FIP is increasingly recognized as a crucial aspect of sustainable business management. Companies prioritizing environmentally friendly initiatives often find that these efforts contribute to a healthier planet and positively impact their bottom line (Liute and De Giacomo, 2022). According to Mishra, Ghosh, and Sarkar (2022), implementing energy-efficient technologies, reducing waste, and adopting sustainable supply chain practices can lead to cost savings and operational efficiencies. Moreover, consumers are becoming more environmentally conscious, and businesses that embrace eco-friendly practices can gain a competitive edge in the market (Tshuma, 2022). Investors are also showing a growing interest in companies with substantial environmental, social, and governance (ESG) performance, as they are perceived to be better positioned for long-term success (Barko, Cremers, and Renneboog 2021). According the study proposed that:

H5: *EFB positively affects FIP.*

Moderating role of pro-environmental Behaviour

The moderating effect of pro-environmental behaviour (PEB) plays a pivotal role in shaping the nexus between CSR and FIP. As businesses increasingly recognize the importance of sustainability, adopting pro-environmental practices becomes crucial. SMEs engaging in CSR initiatives may experience amplified financial benefits when coupled with a genuine commitment to environmental stewardship (Nassani et al., 2022). PEB serves as a catalyst, enhancing the favourable influence of CSR on SMEs' FIP by fostering customer loyalty, attracting environmentally conscious investors, and mitigating risks associated with environmental regulations (Hu et al., 2023; Oke, 2022). In essence, the integration of pro-environmental behaviour acts as a key moderator, synergistically strengthening the link between CSR efforts and the financial success of SMEs in an era where sustainable practices are ethical and financially advantageous. Accordingly, this research suggests that:

H6: PEB has a positive moderating influence on the connection between CSR and FIP.

Conceptual Framework

Figure 1 outline indicates the conceptual model explored in this research. The model proposed is based on the RBV theory and the hypothesis espoused in this study. The study presents six hypotheses. Thus, five direct hypotheses (H1-H5) and one moderating hypothesis (6) were captured in the research model.

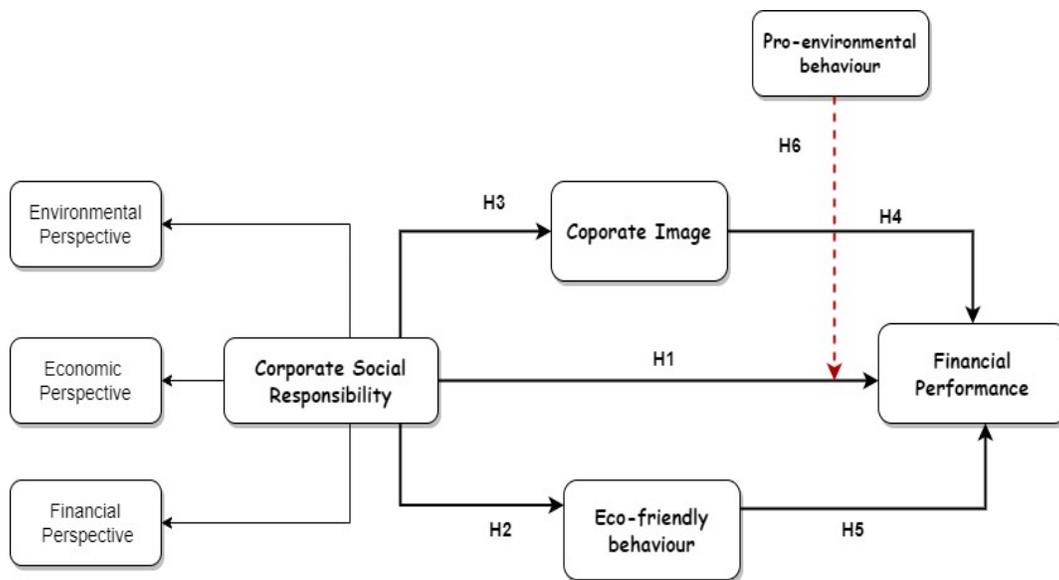


Figure 1. Conceptual model for the study

Research Methodology

Data collection method

The questionnaires of this research were designed to capture relevant information from key stakeholders within SMEs, including managers, supervisors, and finance officers. Questionnaires allow for a systematic and standardized approach to collecting quantitative data, ensuring sample response consistency. The questions were carefully crafted to assess perceptions of CSR practices, eco-friendly behaviours, corporate image, financial performance, and pro-environmental attitudes. A stratified sampling approach was employed to ensure a representative sample and enhance the precision of the study. South African SMEs vary in size, industry, and geographic location, which may influence their CSR practices and performance outcomes. Therefore, the population of SMEs in Cape Town, South Africa, was stratified based on these criteria to ensure a diverse sector representation. This approach allows for a more meticulous analysis, considering potential variations in CSR practices, pro-environmental attitudes, and financial performance across different strata, providing a comprehensive understanding of the research variables within the context of SMEs in South Africa. The study distributed 450 questionnaires, and 360 were used for the final analysis. Table 1 displays the demographic breakdown of the participants.

Table 1. Profile of participants

Participants Demographic analysis			
Demographic		Frequency	Percentage
Gender	Male	188	52%
	Female	172	48%
Age group	18-25	65	19%
	26-30	145	40%
	31-40	102	28%
	40 and above	48	13%
Marital status	Married	186	52%
	Single	174	48%
Education	Bachelor	135	37%

	Master	150	42%
	PhD and above	75	21%
Job Position	Executive	54	15%
	Manager	109	31%
	Supervisor	132	36%
	First-line manager	65	18%

Measurement Development

The study adopted a comprehensive approach in the questionnaire design by incorporating Likert-scale items to gauge stakeholders' perceptions of CSR, eco-friendly behaviour, corporate image, and financial performance. Open-ended questions allowed the respondents to provide qualitative insights, enriching the understanding of nuanced perspectives. The questionnaire also includes items designed to capture the moderating effect of pro-environmental behaviour, ensuring a thorough exploration of the intricate relationships within SMEs in South Africa. The items for measuring CSR comprised three reflective indicators (Environmental perspective (EVP-EVP4), Social perspective SOP1-SOP4, and financial perspective FNP1-FNP4). The items for the CSR were selected from (Wong, Kim, and Hwang 2021). In addition, the scales for corporate image and firm performance were retrieved from (Ali et al. 2020). The items for eco-behaviour were taken from (Kim et al. 2019), and scales for PEB were selected from (Sampene et al. 2023).

Data analytical procedure

The study incorporated PLS-SEM to test the proposed hypothesis of this analysis. The PLS-SEM analysis offers several advantages, making it a popular and powerful statistical method in various research fields. One key advantage is its flexibility in handling complex models with latent variables, observed variables, and multiple indicators (Khan, Hussain, and Sampene, 2023). PLS-SEM is particularly useful when sample sizes are limited, as it does not rely heavily on assumptions of multivariate normality. Another notable advantage is its ability to handle reflective and formative measurement models, allowing researchers to model different relationships between latent constructs and their indicators (Hair et al., 2012). The versatility and robustness of PLS-SEM make it a valuable tool for researchers seeking a powerful method for analyzing complex structural models with practical applicability in various disciplines (Hair, Howard, and Nitzl, 2020).

Results and Discussion

Validity and reliability evaluation

In PLS-SEM analysis, factor loadings, composite reliability (CR), Cronbach's alpha (CA), and Average Variance Extracted (AVE) are crucial indicators for assessing the reliability and validity of latent constructs. Factor loadings represent the strength of the relationship between observed indicators and latent constructs (Manley et al. 2021). Higher factor loadings suggest a more robust association. Composite reliability (CR) gauges the internal consistency of a latent construct, reflecting the extent to which its indicators reliably measure the underlying concept. A CR value above 0.7 is generally acceptable (Wiredu et al., 2023). AVE explore the difference captured by a latent construct relative to measurement error. An AVE value above 0.5 is generally deemed adequate. These metrics assess the measurement model's quality (Agyeman et al. 2021). Practitioners often use a statistical threshold of 0.7 for CR and CA and 0.5 for AVE to ensure the reliability and validity of the latent constructs in PLS-SEM analysis. The outcome, as displayed in Table 2, revealed that all the indicators meet the CR, CA, AVE and factor loadings suggested by (Hair et al. 2020).

Multicollinearity test

In PLS-SEM analysis, the issue of multicollinearity is a critical consideration, and researchers often employ statistical tools such as the variance inflation factor (VIF) to assess and mitigate its impact. Podsakoff et al. (2003) serve as a diagnostic measure to quantify the extent to which the variance of an estimated regression coefficient is inflated due to multicollinearity. Researchers typically set a statistical threshold, such as a VIF value exceeding 5 or 10, to identify problematic levels of multicollinearity. By incorporating the insights of Podsakoff et al., scholars engaging in PLS-SEM analyses can enhance the robustness and validity of their findings by effectively managing multicollinearity, ultimately contributing to the advancement of methodological rigour in social science research. The outcome of this research conforms to the VIF suggested by (Podsakoff et al. 2003).

Table 2. Results of the measurement model

Construct	Items	FL	CA	CR	AVE	VIF
Corporate Social Responsibility			0.740	0.833	0.525	
Environmental perspective						
	EVP1	0.873				2.631
	EVP2	0.804				2.019
	EVP3	0.787				2.427

	EVP4	0.860				1.424
Social Perspective	SOP1	0.759				1.331
	SOP2	0.883				2.770
	SOP3	0.721				2.800
	SOP4	0.729				2.192
Financial perspective	FNP1	0.720				2.204
	FNP2	0.740				2.230
	FNP3	0.822				1.915
	FNP4	0.895				1.503
Corporate Image	CIM1	0.842	0.876	0.899	0.640	1.424
	CIM2	0.878				1.331
	CIM3	0.882				2.832
	CIM4	0.811				3.300
	CIM5	0.825				1.825
Eco-friendly behaviour	EFB1	0.824	0.799	0.863	0.560	1.885
	EFB2	0.796				2.433
	EFB3	0.800				2.813
	EFB4	0.840				2.218
	EFB5	0.863				1.885
Pro-environmental behaviour	PEB1	0.843	0.740	0.832	0.526	1.801
	PEB2	0.855				1.769
	PEB3	0.811				3.223
	PEB4	0.772				2.634
	PEB5	0.779				1.801

Financial performance	FIP1	0.846	0.871	0.907	0.660	1.321
	FIP2	0.880				2.323
	FIP3	0.884				2.323
	FIP4	0.805				3.222
	FIP5	0.818				1.145

Discriminant validity test

Discriminant validity is a crucial aspect of PLS-SEM analysis, ensuring that the constructs in a model are distinct and do not overlap substantially. Fornell & Larcker (1981) criterion and Heterotrait-Monotrait (HTMT) ratio are commonly employed techniques to assess discriminant validity. A conservative threshold for discriminant validity is typically set at 0.85 for the Fornell & Larcker, (1981) criterion and 0.90 for the HTMT ratio, ensuring that the constructs are sufficiently distinct and measurement errors are adequately controlled in the PLS-SEM analysis. Adherence to these thresholds provides confidence in the validity of the measurement model and the reliability of the relationships established within the structural model (Hair et al., 2014). Hence, the findings from Table 3 delineated that the statistical values for both tests meet the requirement of not exceeding 0.90, as espoused by (Henseler, Ringle, and Sarstedt 2015).

Table 3. Results of Discriminant Validity

Fornell & Larcker, (1981) Criteria					
	CSR	CIM	EFP	PEB	FIP
CSR	0.725				
CIM	0.788	0.656			
EFP	0.654	0.920	0.748		
PEB	1.000	0.786	0.652	0.725	
FIP	0.718	0.837	0.591	0.720	0.813
HTMT Criteria					
	CSR	CIM	EFP	PEB	FIP
CSR					
CIM	0.620				
EFP	0.503	0.685			

PEB	0.352	0.270	0.703		
FIP	0.541	0.659	0.698	0.642	

Assessment of the structural model

The study used various statistical metrics, like path coefficients and bootstrapping, to evaluate the link's strength and importance within the model (Atman Uslu and Yildiz Durak, 2022; Ma et al., 2023). This model helps us understand the direct and indirect relationships among the constructs and can also guide decision-makers in implementing plans to improve ecological sustainability. The hypothesis testing for this research is categorized as follows:

Evaluation of Direct Hypothesis

The outcome from the structural model has been displayed in Table 4 and Figure 2. The finding revealed in hypothesis 1 that CSR H1 ($\beta = 0.433$, $t = 53.304$; $p - value = 0.000$) has a positive and substantial effect on firm FIP in South Africa. Likewise, the second hypothesis revealed that CSR H2 ($\beta = 0.786$, $t = 56.123$; $p - value = 0.000$) positively and significantly influence eco-friendly behaviour among SMEs in South Africa. In addition, the analysis disclosed that CSR H3 ($\beta = 0.317$, $t = 17.760$; $p - value = 0.000$) has a direct and substantial influence on corporate image. Again, the empirical evidence presented in this research delineated that corporate image H4 ($\beta = 0.819$, $t = 44.770$; $p - value = 0.000$) has a substantial and direct impact on FIP among SMEs in South Africa. Furthermore, the study outcome highlighted that eco-friendly behaviour in H5 ($\beta = 0.455$, $t = 33.874$; $p - value = 0.000$) has a significant and favourable influence on FIP. These outcomes confirm H1-H5 in this research.

Table 4. Finding of the structural model (Hypothesis testing)

Hypothesis	Relationships	β	T-stats	P-value	Remarks
Direct Relationship					
H1	CSR → FIP	0.443***	53.304	0.000	Supported
H2	CSR → EFB	0.786***	56.123	0.000	Supported
H3	CSR → CIM	0.317***	17.760	0.000	Supported
H4	CIM → FIP	0.819***	44.770	0.000	Supported
H5	EFB → FIP	0.455***	33.874	0.001	Supported

Moderation Relationship					
H6	PEB* CSR → FIP	0.380***	50.776	0.000	Supported

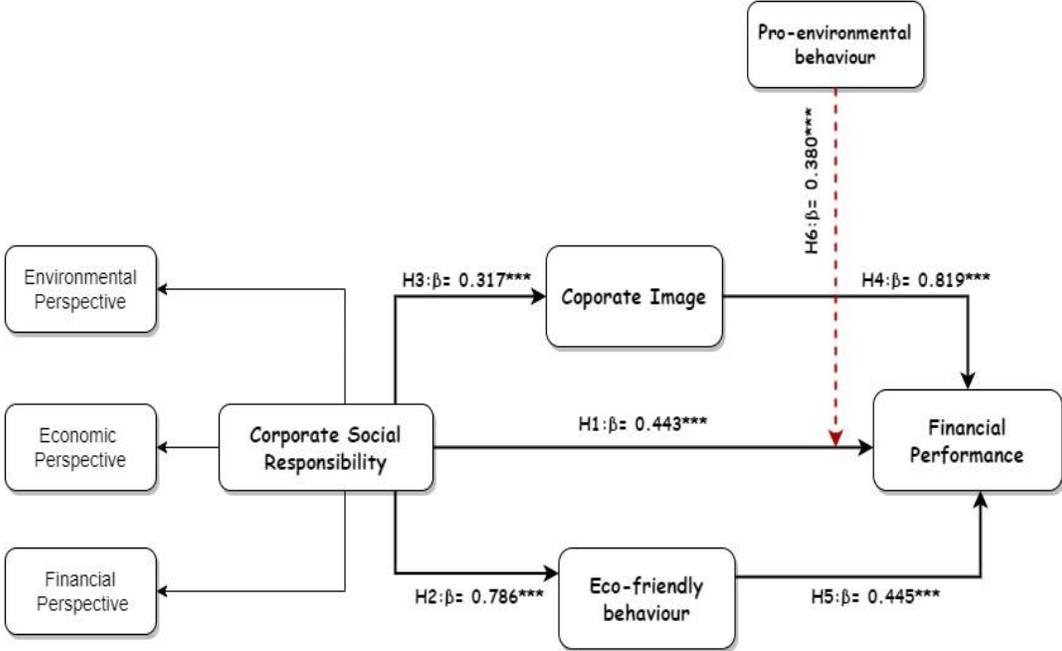


Figure 2. Results of the structural equation research model

Moderation Analysis

Moderation assessment is a statistical instrument used to study the impact of a third variable, referred to as the moderator, on the direction or degree of the link between two other variables. It helps researchers understand under what conditions or for whom the relationship between the two main variables might be stronger, weaker, positive, or negative, providing insights into the factors that influence the observed associations in a given study (Sampene et al., 2022). Hence, this research evaluated the moderation influence of PEB on the connection between CSR and FIP. The results delineated that PEB H6 ($\beta = 0.380, t = 50.776; p - value = 0.000$) positively influence the link between CSR and FIP. The iterative moderation role of PEB has been graphically presented in Figure 3. The Figures revealed that a higher level of PEB helps stimulate or improves the connection between CSR and FIP among firms in South Africa.

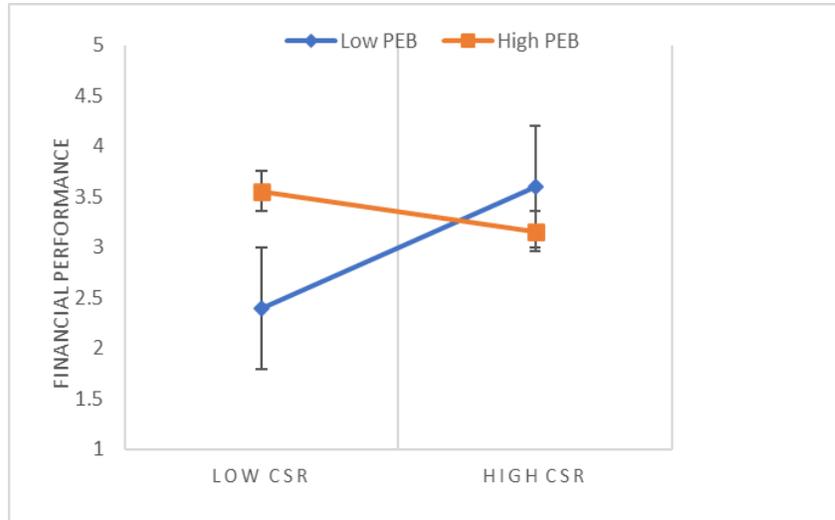


Figure 3. Graphical representation of the moderation role of PEB between CSR and FIP

Goodness of Fit and Effect Size

In PLS-SEM, effect size and goodness of fit are crucial metrics for assessing the model's performance and reliability. Effect size measures the strength and magnitude of relationships between latent variables in the model, providing insights into the practical significance of the identified associations (Atman Uslu and Yildiz Durak, 2022). It allows researchers to gauge the hypothesized connections' real-world impact beyond statistical significance. Goodness of fit, on the other hand, evaluates how well the model reproduces the observed data. PLS-SEM typically employs the goodness-of-fit index (GoF) to assess the overall model fit. A higher GoF score indicates a better fit, implying that the model effectively captures the variance and covariance in the data (Hair et al., 2020). Researchers often interpret these metrics collectively to ensure that their PLS-SEM model not only achieves statistical significance but also possesses substantive relevance and adequately explains the observed patterns in the data (Sampene et al., 2023). The findings discovered that the study outcome showed a more significant effect size of R^2 , F^2 , Q^2 , RMS_theta (Root Mean Square Residual), RMSE (Root Mean Square Error), and NFI (Normed Fit Index) as captured in Table 5, contributing to the robustness and validity of the findings derived from the PLS-SEM analysis.

Table 5. Goodness of Fit Indices

Variables	R^2	F^2	Q^2
Corporate Social Responsibility	0.769	0.515	0.813
Corporate Image	0.759	0.402	0.777

Eco-friendly behaviour	0.777	0.815	0.782
Pro-environmental behaviour	0.778	0.593	0.769
Financial performance		0.561	0.779
Model Fitness Indicators	Saturated Model	Estimated Model	
RMSE	0.022	0.030	
NFI	0.933	0.977	
RMS_theta		0.006	

Discussion

First, the study revealed that CSR positively impacts FIP among South African firms. The favourable and substantial effect of CSR, encompassing social and financial dimensions and environmental perspective, on the financial performance of SMEs underscores the evolving landscape of responsible business practices. Adopting CSR initiatives prioritizing ecological sustainability, social welfare, and financial stewardship aligns SMEs with global trends and contributes to their long-term success (Mapokotera et al., 2023). By integrating environmentally conscious practices, such as sustainable sourcing or reduced carbon footprint, SMEs fulfil ethical obligations and often realize operational efficiencies, cost savings, and enhanced reputational benefits. Lin (2023) indicated that socially responsible actions, such as community engagement and fair labour practices, can strengthen stakeholder relationships and bolster brand image, increasing customer loyalty and positive financial outcomes. Furthermore, Baah et al. (2023) asserted that by incorporating financial responsibility, such as transparent reporting and ethical financial practices, SMEs can attract ethical investors and gain a competitive edge. In South Africa, where social and environmental issues are pivotal, SMEs embracing comprehensive CSR strategies are well-positioned to contribute to the greater good and enhance their financial performance sustainably and socially consciously. The outcome of this study enriches these prior studies that indicated that CSR helps improve FIP (Arian et al., 2023; Kabir and Chowdhury, 2023; J. Li et al., 2023).

Second, the analysis indicated a significant influence of CSR on SMEs' eco-friendly behaviour, encompassing environmental, social, and financial dimensions. This result implies that SMEs embracing CSR initiatives contribute to sustainable development by integrating environmentally friendly practices into their operations, thereby reducing their trend of environmental sustainability (Le et al., 2023). In addition, Mu, Xu, and Chen (2023) espoused that the emphasis on social responsibility enhances the company's reputation and fosters positive relationships with local communities, customers, and stakeholders. Financially, investing in eco-friendly practices can result in long-term cost savings through energy

efficiency and resource conservation. The confluence of these dimensions creates a synergistic effect, motivating SMEs in South Africa to adopt and prioritize eco-friendly behaviour as an essential aspect of their enterprise's approach, aligning both ethical and economic considerations for sustainable and responsible business practices. This outcome supports these prior studies (Guan et al., 2023; Li et al., 2023).

Moreover, the analysis delineated that CSR's substantial effect on SMEs' corporate image is evident by cultivating a socially responsible business culture in South Africa. This result implies that as SMEs engage in CSR initiatives, such as community development projects, environmental sustainability efforts, and ethical business practices, they contribute to the well-being of local communities and enhance their corporate image. In a socio-economic context where ethical and socially conscious business practices are increasingly valued, consumers in South Africa tend to view SMEs positively when actively participating in CSR activities (Ijabadeniyi and Govender, 2023). This positive assessment may result in more devoted customers, brand recognition, and a competitive advantage in the marketplace. Additionally, Hoeyi (2016) revealed that as consumers become more discerning and socially conscious, SMEs prioritizing CSR in South Africa are likely to enjoy sustained growth and enhanced corporate image, demonstrating excellent conformity to the accepted standards and principles of the neighbourhood. This research's results extend these prior analyses (Kankam-Kwarteng et al., 2023; Khan and Fatma, 2023).

Furthermore, the paper reported a positive influence of corporate image on SMEs' FIP, underscoring the critical role that a favourable public perception plays in the success of these businesses. The explanation for this outcome is that a strong corporate image enhances brand reputation and customer trust, resulting in heightened client loyalty and fruitful word-of-mouth recommendations (Haryono et al., 2023). This positive image can attract new customers, bolster sales, and create a competitive edge in the market. Additionally, a favourable corporate image can facilitate more accessible access to capital, partnerships, and collaborations, contributing to the overall financial health of SMEs. Consequently, as SMEs invest in building and maintaining a positive corporate image, they are likely to experience tangible financial benefits, reinforcing the symbiotic relationship between a robust corporate image and enhanced financial performance in the dynamic business landscape (Alamsyah, Othman, and Mohammed 2020; Luo and Qu 2023).

In addition, the study outlined indicated that adopting eco-friendly practices by SMEs can yield positive and significant effects on their financial performance. Embracing environmentally sustainable initiatives aligns businesses with growing societal values and expectations and can lead to cost savings and operational efficiency improvements. Implementing energy-efficient technologies, waste reduction measures, and sustainable sourcing contributes to environmental conservation and can directly impact SMEs' bottom lines by lowering energy and resource costs (Majid et al., 2023; Prashar, 2019). Moreover, Sembiring (2021)

demonstrated that as consumers increasingly prioritize environmentally responsible products and services, SMEs that integrate eco-friendly practices into their operations often gain a competitive edge, attracting a broader customer base and enhancing brand reputation. This positive association between eco-friendly initiatives and financial performance underscores the potential for SMEs to contribute to environmental sustainability and achieve economic success simultaneously (Petitjean 2019).

Lastly, the empirical finding captured the positive and significant moderating effects of pro-environmental behaviour on the connection between CSR and SMEs' FIP, highlighting the importance of sustainable business practices. When SMEs actively engage in pro-environmental behaviours, such as adopting eco-friendly practices or promoting environmental responsibility, they enhance the favourable influence of CSR initiatives on their FIP. This suggests that not only does CSR contribute to financial outcomes for SMEs, but the presence of a pro-environmental orientation amplifies these effects (Hongxin et al., 2022; Zhao and He, 2022). The moderation effect underscores the strategic value of aligning CSR efforts with environmentally conscious practices in SMEs, emphasizing the potential for financial benefits when social responsibility and ecological sustainability are integrated into business strategies (Latif et al., 2022).

Conclusion and Research Implications

Conclusion

This research has shed light on the intricate dynamics within South African SMEs, explicitly exploring the multifaceted relationship between CSR, eco-friendly behaviour, corporate image, and FIP. The findings underscore the interplay between CSR initiatives and their outcomes, revealing that the integration of pro-environmental behaviour is a significant moderator in this complex relationship. SMEs actively participating in eco-friendly practices bolsters their corporate image and amplifies the substantial influence of CSR efforts on FIP. This unveils a paradox wherein the convergence of social responsibility and environmental consciousness becomes a strategic advantage for SMEs, aligning ethical business practices with tangible financial gains.

Furthermore, the outcome of this study contributes valuable insights for businesses, policy-makers, and researchers alike. By recognizing the moderating role of pro-environmental behaviour, South African SMEs can strategically navigate the CSR landscape to enhance their sustainability, corporate reputation, and financial viability. Policy-makers can draw upon these findings to design targeted interventions that promote adopting eco-friendly practices among SMEs, fostering a harmonious interplay between CSR and

FIP. Overall, this research underscores the significance of a holistic and integrated approach to CSR within the unique context of SMEs, emphasizing the pivotal role of environmental responsibility in shaping the overall business landscape in South Africa.

Theoretical Implications

This paper makes a substantial theoretical contribution to the RBV theory by providing insights into the strategic resources and capabilities that underlie the competitive advantage of SMEs in South Africa. Within the RBV framework, CSR is recognized as a valuable intangible resource, and this research enriches this perspective by including PEB as a moderating factor. The findings suggest that incorporating pro-environmental practices acts as a complementary resource that enhances the impact of CSR initiatives on SMEs' financial performance and corporate image. This underscores the significance of social responsibility and environmentally responsible actions in the context of South African SMEs and is consistent with the RBV's emphasis on the distinctive combination and leveraging of resources to generate a sustained competitive advantage. Moreover, the research contributes to the RBV theory by unveiling a paradoxical relationship wherein seemingly conflicting aspects, such as environmental responsibility and financial performance, converge to create a strategic advantage. This challenges the traditional view that environmental responsibility may impose additional costs on businesses. Instead, the study suggests that when aligned with CSR efforts, pro-environmental behaviour becomes a distinctive resource that contributes to corporate image and positively influences financial outcomes. This nuanced understanding enriches the RBV framework by recognizing the dynamic and multifaceted nature of resources within SMEs, emphasizing the strategic value of ethical and environmentally conscious business practices in the competitive landscape of South Africa.

Policy Implications

This research makes substantial practical contributions to understanding corporate dynamics within South African SMEs. Firstly, identifying pro-environmental behaviour as a significant moderator in the connection between CSR and FIP provides SMEs with actionable insights. Business leaders can leverage this knowledge to strategically align CSR initiatives with eco-friendly practices, fostering a synergistic relationship that enhances their corporate image and positively impacts the bottom line. This practical guidance allows SMEs to navigate the delicate balance between ethical responsibility and financial viability, offering a roadmap for sustainable and profitable business practices.

Secondly, the research sheds light on the role of pro-environmental behaviour in shaping corporate image among SMEs. Understanding that eco-friendly practices enhance the positive perception of an organization

can guide SMEs in crafting more effective branding and communication strategies. By emphasizing their commitment to environmental responsibility, SMEs can differentiate themselves in the market, attract environmentally conscious consumers, and build a positive corporate image. This strategic positioning contributes to brand loyalty and creates a competitive advantage, demonstrating the practical significance of incorporating pro-environmental behaviour into broader CSR frameworks.

Thirdly, the study's insights are invaluable for policy-makers promoting sustainable business practices within the SME sector. Recognizing the moderating effect of pro-environmental behaviour underscores the importance of targeted interventions to encourage eco-friendly initiatives. Policy-makers can design incentives, regulatory frameworks, and educational programs that specifically address the integration of environmental responsibility within CSR strategies, fostering a more environmentally sustainable and socially responsible SME landscape.

Lastly, the research contributes to the broader discourse on corporate sustainability by unveiling a paradoxical connection between CSR, EFB, and FIP. This paradox challenges conventional assumptions and encourages a more nuanced understanding of the intricate connections between social and environmental responsibility and business success. SMEs, policy-makers, and other stakeholders can leverage these findings to reevaluate their approaches to CSR, fostering a holistic perspective that embraces both ethical responsibility and financial pragmatism for long-term corporate sustainability in the South African context.

Limitation and Future Research

It is important to recognize several limitations even though this research provides insightful information about the complex linkages between CSR, EFB, CIM, and FIP in SMEs in South Africa. First, the study's conclusions might only apply to the context of South Africa, making it difficult to extrapolate to SMEs in other areas with different legislative, cultural, and economic contexts. In terms of future research directions, exploring the varying impacts of CSR and pro-environmental behaviour across various industries within the SME sector in South Africa could provide a more granular understanding of these dynamics. A more complete view would also come from investigating how internal elements like corporate culture and leadership philosophies mediate the link between CSR efforts and financial performance. Future research could also explore the long-term sustainability of the observed positive effects and potential threshold effects beyond which the benefits diminish. Addressing these limitations and pursuing these avenues could further enrich our understanding of the intricate interplay between CSR, eco-friendly behaviour, corporate image, and financial performance among SMEs, contributing to the broader discourse on sustainable business practices.

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