The Effect of Corporate Social Responsibility on Corporate Financial Performance in the Apparel Industry

The apparel industry has become one of the largest industries globally due to low production costs

Along with its financial increase, the industry has received a large amount of criticism by consumers, governments and NGOs

The increased criticism has occurred as a result of the many social and environmental disasters in apparel manufacturing appearing in the media.

As a result of the criticism, there are already initiatives by apparel companies to solve CSR issues.

In existing studies about Corporate Social Responsibility (CSR), there is no study which researches the relationship between CSR-issues implemented by apparel companies and the companies' financial performances. This study does look at this relationship and tests whether there is an effect of involvement in different CSR practices by apparel companies and an apparel company's financial performance.

CSR is measured by looking at three different scores of a company; corporate governance score, environmental score, and social score. If a company has good corporate governance, it means that independent managers make decisions for and control the company. This increases the trustworthiness and the transparency of the company. If a company has a good environmental score, it uses unhazardous chemicals or renewable resources when manufacturing its products. Finally, if a company has a good social score, they use no sweat-shop labour and do not let their employees work in hazardous working conditions. The company's financial performance is measured by looking at the company's market value. A company's market value shows the amount consumers are willing to pay for a product in the market compared to its actual cost value.

Besides looking at the direct relationship between the three types of CSR scores and financial performance, the research also checks whether the relationship between CSR and financial performance is stronger for high-end apparel companies than it is for low-end apparel companies. The reason for looking at this indirect relationship is the fact that both high-end apparel and CSR are used as a symbol of status.

The results of the tests have different findings. First of all, the results show that there is no relationship between a company's involvement in corporate governance initiatives and its financial performance. This means that an apparel company's financial performance is not better when the company has independent managers which make decisions for and control the company. Moreover, the results show that there is a negative relationship between a company's involvement in environmental issues and its market value. This means that apparel companies which do not use hazardous chemicals and use renewable resources have worse financial performance than those apparel companies which do not. Finally, the results show that involvement in social practices by apparel companies is positively related to a company's financial performance. This means that companies which use non-sweatshop labour and which make sure that their employees do not work in hazardous conditions have better financial performance than those that do not. Besides a direct relationship between CSR and financial performance, the research also looks whether the relationship differs between high-end apparel companies and low-end apparel companies. The results show that low-end apparel companies which are involved in environmental practices have a higher market value than high-end apparel companies which invest in these practices.

Although it was expected that all three types of CSR would have a positive effect on an apparel company's financial performance, the research only found that involvement in social practices by apparel companies leads to better financial performance than those apparel companies which do not. Managers of apparel companies can take the findings of this study into account when looking for ways to improve their market value. They should invest in social issues, such as non-sweatshop labour or unhazardous working conditions for employees, to increase their market value. In addition, managers of low-end apparel firms learn from this study that investing is environmental practices has a larger effect for them than it does for high-end apparel companies.