

Impact of Environment and Community on Performance of Malaysian Travel & Leisure Public Listed Companies

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Abstract. Nowadays the link between any related determinants of corporate social responsibility (CSR) and financial performance of companies has recently been an important subject in developing countries especially in Malaysia; Since there are different associations between CSR and financial performance in the literature, the aim of this research is to develop a model to determine the existence of any associations between community and environment as determinants of CSR with financial achievement in Malaysian travel and leisure companies. The moderating role of age and size of companies leading towards firm performance will also be considered. To test the model, 30 travel and leisure public listed companies in Bursa Malaysia will be selected over a sample period of 2000-2005. This model will be implemented through structured equation model (SEM). The developed model can then be recommended to other companies.

Keywords: CSR, Firm Performance, Travel and Leisure, SEM, Bursa Malaysia.

1. Introduction

Any corporation's objective is to create value for its shareholders. Nowadays, companies try to do some beneficial activities which can be described as corporate social responsibility. Corporate social responsibility is defined as category of economic, ethical, legal and discretionary activities of business that lead to the value and expectations of society (Grunig, 1979).

In the recent years emerging countries specially Malaysia have been improved in using CSR by firms Due to being a powerful competitor in a competition environment. One of the important things that is considered an important criteria in CSR activities is relationship between corporate social responsibility and financial performance. The correlation between CSR and firm financial performance in developed countries is well-established and has been considered in the previous researches (McGuire, Sundgren, & Schneeweis, 1988; Simpson & Kohers, 2002; Vance, 1975). However, there is a big difference in implementing corporate social responsibility in different countries; this difference is culture and ethical reasoning (Whitcomb, Erdener, & Li, 1998).

Different theories explained different relationship between CSR and Financial performance. Some researchers suggested that there was a positive link between corporate social responsibility and financial performance such as (McGuire, Sundgren, & Schneeweis, 1988; Moskowitz, 1972; Simpson & Kohers, 2002), some researchers believed that there was a negative correlation between Corporate social responsibility and financial performance like (Aupperle, Carroll, & Hatfield, 1985; Vance, 1975), and some other asserted that there was no relationship with them (Mahoney & Roberts, 2007; McWilliams & Siegel, 2001). Although in developed markets such as North America and Europe there have been broad empirical tests of the relationship between CSR and financial achievements. There are few debates and discussions on studying interaction of corporate social responsibility and firm performance in Malaysia.

1.1. Problem Statement and Research Gap

In Malaysia corporate social responsibility is in introducer level of applying. Recently implementing any determinants of corporate social responsibility on firm performance is an interesting topic which

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Malaysian firms are interested into. Travel and leisure industry is an important area which should be paid attention in order to fulfill customers' satisfaction. There are few researches in field of corporate social responsibility in hospitality industry in Malaysian concept which eager us to analyze the relationship between environmental and community activities of corporate social responsibility and firm performances.

1.2. Research Questions

- What is the relationship between environment and community with profitability?
- How does age and size of firms influence moderate the relationship between corporate social responsibility and profitability?

1.3. Objectives of the Research

- To find out any relationships between environment and community with profitability.
- To investigate how age and size of firms influence moderate the relationship between corporate social responsibility and profitability.

2. Literature Review

2.1. Corporate Social Responsibility Studies in Malaysia

Nowadays firms in Malaysia attempt to accept CSR and work in this field. The attitudes of Malaysian managers and executives towards social responsibility suggest that most of them agreed their companies were involved in socially responsible activities (Abdul & Ibrahim, 2002; Ahmad, Sulaiman, & Siswanto, 2003). Good CSR practices will help firms to get better investors and to meet better the challenges posed by increased competition for markets and capital, to improve reputation and branding of Malaysian companies, which can play a significant role in economic growth in Malaysia. There is a weak awareness of CSR among Public listed companies and a lack of engagement in CSR activities. Malaysia has got the Association of South East Asian Nations (ASEAN) countries in the number of companies producing sustainability reports. Thus disclosing of CSR activities have been increased. Bursa Malaysia and the Malaysian Institute of Accountants published guidance about CSR activities. Bursa Malaysia attempts to create ESG index in the next few years to absorb more investors (Malaysia, 2006).

2.2. Relationship between CSR and Financial Performance

Based on different studies and different theories in the relationship between social responsibility and firm profitability, the relationship between these two variables divided in positive, negative and mixed relationship. Positive link between CSR and firm performance was explained by some researchers (McGuire, Sundgren, & Schneeweis, 1988; Moskowitz, 1972; Simpson & Kohers, 2002). These researchers found the aim of socially behaviors was to enhance employee morale and ethic and quantity of products to absorb qualify employees, suppliers, then improved good corporate image.

Some researchers found negative relationship between CSR and FP like (Aupperle, Carroll, & Hatfield, 1985; Vance, 1975). The researchers argued firms that behaved responsibly incurred costs that put them at economic disadvantages compare to other firms. According to this view, socially responsible behavior is costly rather than making benefits.

Based on managerial opportunism theory, there is a negative synergy theory which causes managers to decrease CSR activities in order to maximize their personal compensation when the performance of company is good.

There is no relationship between social responsibility and firm performance (Mahoney & Roberts, 2007; McWilliams & Siegel, 2001). They explained a non-existent relationship based on theory of supply and demand of the firm. They assumed when firms produce at a profit-maximizing level, the shareholder wealth was maximized.

3. Methodology and Research Design

This study uses previous models and develops a model. Figure 1 shows proposed research model for this research. Environment and community are considered as independent variables. Financial performance is

dependent variables which is used return of equity (ROE) as an accounting base that is measured by net income divided by total equity (McWilliams & Siegel, 2001). The moderating role of age and size of companies which influence the interaction between corporate social responsibility and firm performance are also studied. Age of firm is equal to 2005 minus the year the firm was established (Bonn, Yoshikawa, & Phan, 2004). Size of the firm is described as natural logarithm of annual sales (Waddock & Graves, 1997).

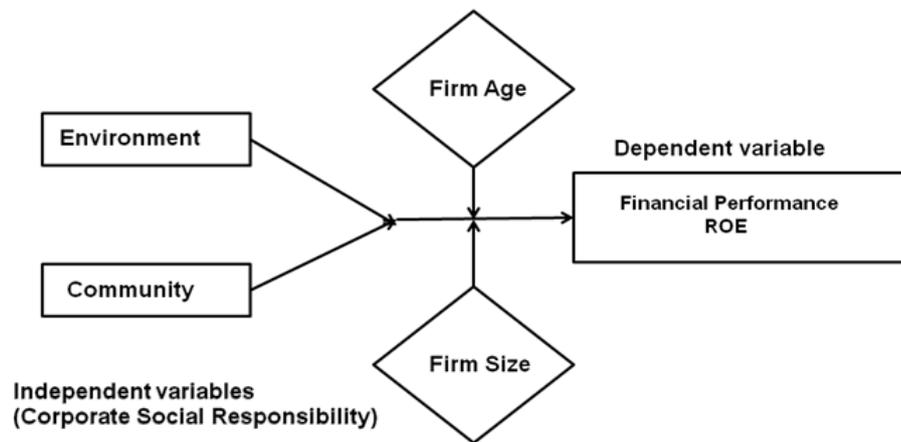


Fig. 1: Proposed Research Model

3.1. Hypotheses Development

H1: There is a direct relationship between environment and profitability.

H2: There is a direct relationship between community and profitability.

H3: Age of company moderates the path relation between corporate social responsibility and firm performance.

H4: Size of company moderates the path relation between corporate social responsibility and firm performance.

3.2. Sample Design

The research will be conducted for 30 travel and leisure public listed companies in Bursa Malaysia. This section contains airlines, gambling, hotels, recreational services, restaurants and bars, and at last travel and tourism. This study will be a cross-sectional study which will be using systematic random sampling for all 30 travel and leisure from 2000-2005.

3.3. Data Collection

This study will use both secondary and primary data. Secondary data will be used for conducting to gather data of firm performance, size and age of companies through annual reports of companies. Annual reports will be downloaded from Bursa Malaysia websites (Bursa Malaysia, 2012). A questionnaire based survey will be used to get information of environment and community in all travel and leisure organizations, also some open-end questions will be applied in the questionnaire to improve ways of implementing CSR in Malaysian companies. The analysis of data will result in I) summary statistics for scores and variables to prepare a general overview of independent, dependent and control variables in terms of number of cases, Median, standard deviation and average values, II) correlations between variables and scores, to draw a conclusion about the relationship between variables.

4. Discussion of Findings

All data collected from annual reports and questionnaire will be tested by using structural equation model (SEM) to test hypotheses in a relationship of corporate social responsibility and firm profitability. Necessary tests which will be needed in this study will be descriptive statistics, regression analysis and correlation coefficient (Waddock & Graves, 1997). After that it will be discussed which of hypothesis will be accepted, and which of them will be rejected. Then the final discussion will be concluded about the relationship between environmental effect and community influence on performance of these companies.

Any additional analysis required to test the model will be implemented in appropriate time and suitable levels.

5. Conclusion

Malaysia is lagging behind many developed countries in applying corporate social responsibility in companies and analyzing the effects of CSR on firms' value. However, it has been improved in this area remarkably since last years. There are few researches in the area of linking between corporate social responsibility concept and profitability in Malaysia, hence this research tries to fill the gap by studying association between environment and community as dimensions of corporate social responsibility and firms profitability in travel and leisure industry of public listed companies in Bursa Malaysia, because hospitality industry is an interesting and important area which customers pay attention to. Moreover develops a model for further studies. This investigation has benefits for government elements, companies, and other sectors who may deal with this issue.

6. References

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