



Research article

The impact of the dimensions of environmental performance on firm performance in travel and tourism industry

Siow-Hooi Tan ^{a,*}, Muzafar Shah Habibullah ^b, Siow-Kian Tan ^a, Shay-Wei Choon ^a^a Faculty of Management, Multimedia University, Persiaran Multimedia, 63100 Cyberjaya, Selangor, Malaysia^b Faculty of Economics and Management, Universiti Putra Malaysia (UPM), 43400, Serdang, Malaysia

ARTICLE INFO

Article history:

Received 28 March 2016
 Received in revised form
 16 January 2017
 Accepted 13 February 2017
 Available online 9 March 2017

Keywords:

Environmental performance
 Financial performance
 Slack resources
 Panel regression
 Travel and tourism industry

ABSTRACT

This study investigates the impact of the aggregate and individual dimensions of environmental performance (EP) on financial performance (FP), based on a dataset covering the travel and tourism industry (airlines, casinos, hotels, and restaurants) across different economic regions over the period 2003–2014. The results reveal that EP positively affects the FP in the hotel industry when aggregate EP is used. When individual dimensions of EP are considered, resource reduction is found to positively (negatively) affect the performance in the hotel (airline) industry, while product innovation positively affects the performance in the restaurant industry. Hence, the trade-off effect seems to be dominant in the airline industry, and the ‘heterogeneous resources and reputation-building’ hypothesis is evident in both the hotel and restaurant industries. In addition, in general, the findings support the positive moderating effect of slack resources on the relationship between the individual dimensions of EP and FP in the travel and tourism industry, and, hence, are supportive of the slack resources hypothesis. These effects, however, vary depending on the travel and tourism industry under investigation.

© 2017 Elsevier Ltd. All rights reserved.

1. Introduction

As awareness of their responsibility and business ethics has increased, corporates, as part of society, are aligning themselves by integrating socially responsible aspects into their business practices for the purpose of sustainable development and competition (Campbell, 2007). Corporate involvement in environmental or green practices, more commonly known as corporate environmental responsibility (CER), is considered to be one of the most important aspects in this regard (Bansal, 2005) as firms have been progressively seen as the stewards of the natural environment (Przychodzen and Przychodzen, 2013).

In the travel and tourism (TT) industry, the concerns of firms about CER, an integral part of corporate social responsibility (CSR), have recently been noted as a driver of sustainability for tourism businesses (Holden, 2000). In the last decade, firms in the TT industry have been actively investing in CER. For instance, hotels and

restaurants have started implementing numerous environmentally sensitive business practices, while airlines have improved their green practices along with other issues as part of their CSR strategy.

With the growing amount of investment and attention that industries are giving to environmental initiatives, researchers have examined whether firms do well by doing good (Kitzmueller and Shimshack, 2012). The findings from the recent literature, however, appear to be rather inconclusive concerning whether CER enhances the corporate financial performance (FP) (see Inoue and Lee (2011) for tourism-related review and Brammer and Millington (2008); Horváthová (2010) for cross-industry analysis). The heterogeneity of these findings, according to Margolis et al. (2009), and Bouslah et al. (2013) lies in the CER measures used in various studies.

In the managerial context, CER has been operationalised as environmental performance (EP) (Waddock and Graves, 1997). The majority of the existing CER studies, which aim to examine the impact of EP on FP, use an aggregate EP that combine various environmental initiatives (Inoue and Lee, 2011). In other words, although these studies treat EP as a subset of the CSR and analyse the EP as a specific CSR dimension in their analysis, they, however, do not sharply focus on each EP dimension. The EP of a firm is the combination of its performance relative to several dimensions, such

* Corresponding author. Faculty of Management, Multimedia University, Persiaran Multimedia, 63100 Cyberjaya, Selangor Darul Ehsan, Malaysia.

E-mail addresses: shtanfly@gmail.com, shtan@mmu.edu.my (S.-H. Tan), muzafar@upm.edu.my (M.S. Habibullah), sktan@mmu.edu.my (S.-K. Tan), swchoon@mmu.edu.my (S.-W. Choon).

as emission reduction, resource reduction and others. The performance of firms differs both across dimensions for the same firm and across firms for the same dimension (Bouslah et al., 2013). Bouslah et al. (2013) suggest testing the individual EP dimensions separately as the use of aggregate EP may confound the effect of the individual EP dimensions that are not equally relevant. According to DataStream ASSET4, Thomson Reuters Corporate Responsibility Ratings, EP includes three dimensions; namely, emission reduction, resource reduction and product innovation.

The main objective of this study is therefore to investigate the effect of the aggregate and individual dimensions of EP on a firm's financial performance in the TT industry around the world over the period 2003–2014. Specifically, this study empirically investigates whether a firm with CER engagement creates heterogeneous and immobile resources that can enhance its competitiveness, and, ultimately, promote its reputation and positively affect its FP ('heterogeneous resources and reputation building' hypothesis). An alternate possibility is that the adoption of environmental strategies depletes the resources of a firm from its core functions which renders it uncompetitive, and that these incurred costs are greater than the financial benefits generated from these environmental activities (trade-off hypothesis). Due to the competing arguments, the effect of EP on FP remains open for discussion, and, hence, this study aims to fill the gap.

In addition to the main objective, this study also attempts to investigate whether the relationship of EP and FP is conditional on firm's slack resources. According to Telle (2006), another possibility for the inconsistent findings revealed in earlier studies may be due to the lack of consideration of a moderating influence on the relationship between EP and FP. For instance, while the existing studies support the "pay to be green" strategy, Clarkson et al. (2011) caution that only firms with ample slack resources should adopt green strategies, as involvement in environmental practices can reduce resources, and, eventually, cause the loss of competitive advantage (Aragon-Correa and Sharma, 2003). Thus, a firm's ability for CER engagement increases along with its financial resource availability. Their notion indeed implies that slack resources positively moderate the effect of EP on FP, and that, the larger the financial resources, the greater the positive effect of EP on FP (slack resources hypothesis).

The findings of this study are expected to contribute to the existing tourism literature in the following ways. Firstly, Bouslah et al. (2013) point out that the problem of aggregation is an important source of heterogeneity in the empirical findings, and, hence, alternative measures of EP need to be considered in empirical work. This study explicitly quantifies the impact of aggregate and individual EP dimensions on firm performance and determines whether the impact of each EP dimension deviates depending on the nature of the firm's business (Bouslah et al., 2013). The individual dimensions of EP under investigation are emission reduction, resource reduction and product innovation. Hence, this study expects to contribute to the tourism CER literature by examining whether CER engagement enhances FP while determining the relative importance of the 'heterogeneous resources and reputation-building' compared with the 'trade-off' hypothesis, in the tourism context.

Secondly, most existing tourism research in EP-FP relies heavily on the Kinder, Lydenberg and Domini (KLD) dataset, which only covers U.S. firms. Nevertheless, alternative measures of EP need to be considered (Margolis et al., 2009). Accordingly, this study offers additional insights by investigating the effect of the individual dimensions of EP on firm performance in the TT industry, under the context of a new dataset; namely, the DataStream ASSET4 database.

Thirdly, this study introduces a moderator, slack resources, in relating the EP and FP. Therefore, this study enriches the tourism EP

literature by suggesting that some effort needs to be made to identify variables that are likely to help better capture the potential benefit from CER. Controlling for the indirect effect of EP on these variables may give a better picture as to the effect of EP on FP.

The remaining sections of the study are structured as follows: Section 2 presents the testable hypotheses. Subsequently, sample selection, data collection, models, and the measurement of variables are discussed in Section 3. Section 4 presents the results and discussion concerning the TT industry. This study concludes by offering practical implications and limitations.

2. Hypothesis development

There are two main competing arguments concerning the relationship between EP and FP. The hypotheses used in this study have been largely developed from Friedman's neo-classical view on CSR, the stakeholder theory and the resource-based view.

Based on Friedman's (1970, p. 1) argument, "the social responsibility of business is to increase its profits". The adoption of environmental strategies depletes the resources of a firm from its core functions which render it uncompetitive, and, hence, the promotion of "social aspirations" is neither realistic nor pursued. On the basis of shareholder's wealth maximisation, spending on improving the environmental performance incurs real, proprietary, as well as opportunity costs (Brammer and Pavelin, 2008; Cormier and Magnan, 1999), which might be greater than the financial benefits generated from these environmental activities (Preston and O'Bannon, 1997; Waddock and Graves, 1997), and eventually weaken the firm and stock market performance (Friedman, 1970; Brammer and Millington, 2008). Hence, the 'trade-off' hypothesis predicts that higher levels of CER worsen the FP. This hypothesis is supported by Vance (1975) and McGuire et al. (1988) who contend that CSR represents additional costs to the firm and reduces the stock prices.

The stakeholder theory, on the other hand, states that a firm's performance is influenced by both shareholders and stakeholders (including employees, suppliers, customers, community, and the natural environment), and, thus, firms should strive to satisfy not only their shareholders but also their stakeholders to enhance their performance. Given that stakeholders have become more concerned about the environment, a firm's adoption of environmental initiatives can be seen to be a credible indication of meeting the expectations of stakeholders. Involvement in environmental activities represents a firm's attempt to satisfy the needs of stakeholders', which, in turn, enhances a company's reputation, and, ultimately, positively influences its FP (Freeman, 1984).

In order to remain competitive and sustainable in business, Barney (1991) suggests that firms need to possess resources that are valuable, scarce, unique, and imperfectly imitable. According to the resource-based view (Russo and Fouts, 1997), CER engagement provides firms with heterogeneous and immobile resources. For instance, employee morale and commitment, ease of finance, customer satisfaction and retention (McWilliams and Siegel, 2001), consumers' loyalty (Sen and Bhattacharya, 2001), and a favourable reputation (Brammer and Millington, 2005), are the resources that result from CER engagement. The creation of these heterogeneous and immobile resources increases firm sales, which, ultimately, enhances financial performance (Luo and Bhattacharya, 2006). All in all, drawing on the stakeholder and resource-based view, CER creates firms with heterogeneous resources and a favourable reputation. Hence, this study labels these arguments as the 'heterogeneous resources and reputation-building hypothesis'.

'Heterogeneous resources and reputation building' are particularly vital in the contemporary TT industry owing to the higher employee turnover rate compared to other industries. Employees in

Download English Version:

<https://daneshyari.com/en/article/5116546>

Download Persian Version:

<https://daneshyari.com/article/5116546>

[Daneshyari.com](https://daneshyari.com)