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## Predictors of firm community interaction

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## ABSTRACT

This paper discusses eight ways in which bus operators interact with the communities in which they provide a bus-service. An exploration of factors hypothesised to be associated with an operator's community interaction (the predictors) is detailed, then tested, using bivariate and multivariate analysis methods. The results reveal some of the hypothesised factors to be actual predictors, although a full-scale explanation for an operator's community interaction is not possible. This paper suggests that bonding social capital and bridging social capital possibly accounts for a large portion of the unidentified factors at work that explain a bus operator's community interactions. The results of this study should encourage policymakers and legislators to ensure that the bus operator governance model that interacts with its community the most is sustained in order to contribute towards community prosperity.

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## 1. Introduction

If, how and to what extent a firm interacts with its community forms part of a firms' corporate social responsibility. This paper will link bus operator governance with community prosperity. The ways and means in which bus operators interact with the communities that they provide a bus-service for will be detailed, and then an exploration of the factors associated with their interactions, or predictors of these interactions, will be presented. Then, using both bivariate (involving or depending on two variables) and multivariate (more than one statistical variable at a time) analysis methods, the predictor variables that have the strongest correlation with operators' propensity to interact with their communities will be identified. The causal nature of a firm's propensity to invest in, and interact with the community in which it operates is an area where previously little has been known.

This paper is organised as follows. Section 2 will outline the composition of the Australian bus and coach operating environment and some historical and current trends. Section 3 will present a literature review on a firms propensity to interact with or contribute to a community. Section 4 presents the methodology for this paper. Section 5 will introduce eight ways in which bus operators interact with their communities, and seven potential causal factors (or predictors) associated with these community interactions (CIs). These interactions and predictors are drawn from

Lowe (2016). Section 6 presents the results of the bivariate and multivariate analysis. Section 7 features a discussion on the meaning and implications of the results and a conclusion is drawn in Section 8.

## 2. Industry composition

According to the Bus Industry Confederation (BIC, 2014), the Australian bus and coach industry contributes more than four billion dollars to the Australian economy each year and employs more than 50,000 people. The BIC states that bus operators travel a total of 18 billion kilometres and provide approximately 1.5 billion passenger trips per year. There are approximately 88,000 buses in Australia.

There are six sets of stakeholders in the Australian bus and coach industry: operators, authorities (or regulators), suppliers, voluntary professional associations, users (or patrons) and unions.

The nature of bus operator governance in Australia is changing. Small Victorian bus operators (with less than ten buses) declined by approximately 34 per cent during the period 2005–2015, while the number of large Victorian operators (with more than 100 buses) more than doubled (from six to 13) in the same period. Other Australian state-based voluntary professional associations (SBVPAs) reported similar trends. Further, the governance models of large bus operators have expanded from government or family-owned models only at around the turn of the millennium to hybrid (private-public) models and non-family, public, multinational enterprises (MNE) in 2015.

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Reasons for operator consolidation vary, but based on anecdotal evidence obtained from being an industry practitioner since 2008, the main reasons are increased regulatory obligations (including new accreditation regimes); declining economic activity and populations in some rural communities, which has seen the rationalisation of school bus services in these towns; new vocational opportunities that have presented themselves to children of operators, which has meant that many have decided not to continue the family bus business; and a number of operators have sold their bus business because they do not trust that the government will not tender their bus service contract.

Family firm bus operators have embedded themselves in Australian communities over generations in most cases. Throughout the nation, the family name, or the family business name, has been displayed proudly on buses in the communities in which each family chose to 'put down roots' and operate its service. As early as the early 1900s, family bus operators had developed a network of trust and reciprocity with their community stakeholders, such as schools, sporting clubs and community service clubs, and contributed to the fostering of their community in many ways. Typically, family firm bus operators in Australia are not bus operators alone; instead, they perform several roles within their community. They generally display a level of local leadership that is valuable and significant, and [Lowe \(2016\)](#) places an economic value on this interaction.

'Stateless' MNEs possess enormous concentrations of power, access to resources and operating efficiencies. It is often argued that given this power, MNEs have special social (and environmental) responsibilities. However, little is understood of how an MNE's corporate social performance compares with that of other governance models and the extent to which non-economic impacts of MNEs on communities are beneficial, neutral or destructive.

Most bus operators with a government-funded bus service contract belong to their SBVPA. There is a long-held custom of Australian state governments procuring some bus services via a negotiated process through the SBVPA as the representative of the collective operators. Historically, the SBVPA has acted to varying extents as an agent of government to assist in the delivery of certain policy objectives and social outcomes. However, of late some state governments have adopted policies that increase contestability, resulting in the tendering of some bus services and the awarding of bus service contracts based on the lowest price ([Hensher & Wallis, 2005](#); [Hansson & Holmgren, 2011](#)).

During this period of change, contracting for social values or a social purpose, such as community prosperity, is absent from state government tendering regimes. This reality is threatening the sustainability of many incumbent operators' businesses because of the ability of large MNEs to discount, indicating a move towards cost efficiency rather than evaluating social benefit.

### 3. Literature review

If, how and to what extent a firm interacts with its community forms part of a firm's corporate social responsibility. As this paper assesses the propensity for different types of firms to interact with its community, a review of corporate social responsibility will provide an understanding of what has gone before.

Corporate social responsibility has become central to many organisations' *modus operandi*, as large corporate scandals and failures have made investor protection a significant issue for all financial markets. Scandals and disasters such as Enron, Arthur Andersen and HIH are rooted not in family businesses, but in large, publicly traded MNE's. As a result of some large corporate disasters, investors and regulators are requiring that companies implement

rigorous corporate governance principles to reduce agency costs and achieve better returns. Literature on corporate social responsibility, performance and governance is voluminous.

[Aras and Crowther \(2008, p. 440\)](#) suggest there are four principles of good corporate governance: transparency, accountability, responsibility and fairness. Corporate governance attempts to address the creation of sustainable value, achieving the firm's goals and keeping a balance between the economic and social goals of the company, including the efficient use of resources, accountability in the use of power and the behaviour of the corporation in its social environment.

[Aguilera and Cuervo-Cazurra \(2004\)](#) suggest corporate governance issues have received recent attention from policymakers and the public because of two parallel processes, globalisation and transformation in the ownership structure of firms. Effective corporate governance systems provide countries with a location advantage, but changing governance systems is not a simple task, as governance practices are embedded in the broader institutional environment. This reflects the current state of the Australian bus and coach industry.

[De Chiara and Spina \(2011\)](#) stress the need for MNE's to frame their behaviour within corporate social responsibility systems and to adopt a different approach to the management of local resources and stakeholders. They argue MNE's should shift their perspective concerning workers, suppliers and community from viewing them as exploitable resources to perceiving them instead as partners and co-creators of MNE values.

[Klassen and Vereecke \(2012\)](#) examine which management capabilities contribute to competitiveness and, more specifically, how they might be linked to social responsibility, risk, opportunity and performance. [Perrini, Russo, Tencati, and Vurro \(2011\)](#) suggest that the narrow, exclusive focus on short-term monetary results has led to counterproductive and negative consequences for business and society and the real influence of corporate social responsibility efforts on corporate performance remains questionable.

[Cennamo, Berrone, Cruz, and Gomez-Mejia \(2012\)](#) suggest stakeholder management is increasingly at the forefront of the corporate agenda. At its core is the notion that a firm has multiple goals in addition to maximising shareholders' economic value. This requires the firm to see beyond its own financial goals to identify and meet the desires of diverse parties, often with conflicting interests, such as employees, environmentalists and the community at large. The 'balanced scorecard' ([Kaplan & Norton, 1992](#)) approach is another model that has such a focus.

[Cennamo et al.'s \(2012\)](#) paper is the only scholarly attempt the researcher could locate that discusses, albeit briefly, how firms interact with their communities. The author's assert that the firm is an extension of the family and

should reflect the leading family principals' core values which could entail other-benefiting activities such as consideration of others' interests when important decisions are made, benevolence, nonreciprocal good deeds, and philanthropic giving in the community at large (p.1159.)

This is the extent of what the authors suggest a firm's responsibilities are to the communities in which they operate. The authors also assert:

engaging with stakeholders is the 'right thing to do' regardless of financial or individual consequences. If unselfish emotions are at play, issues like well-being of the local community in which the firm operates, environmental management, human rights and poverty among many other social ills, are likely to become

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