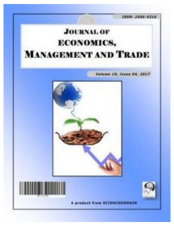

Journal of Economics, Management and Trade

23(5): 1-8, 2019; Article no.JEMT.47704
ISSN: 2456-9216
(Past name:British Journal of Economics, Management & Trade,PastISSN: 2278-098X)

Corpоrate Social Responsibility and Financial Performance of Hotels in Zanzibar

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Authors' contributions

This work was carried out in collaboration between both authors. Author ZMA designed the study, performed the statistical analysis, andmanaged the analyses of the study. Author FAM managed the literature searchesand wrote the first draft of the manuscript.

Article Information

DOI: 10.9734/JEMT/2019/v23i530142
Editor(s):
(1) Dr. O. Felix Ayadi, Interim Associate Dean and JP Morgan Chase Professor of Finance, Jesse H. Jones School of Business, Texas Southern University, TX, USA.
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Reviewers:
(1) G. Srinivasa Rao, Aditya Institute of PG Studies, India.
(2) James A. Adeniran, Babcock University, Nigeria.
(3) Tomasz Dorożyński, University of Lodz, Poland.
Complete Peer review History: http://www.sdiarticle3.com/review-history/47704

Original ResearchArticle

Received 13 January 2019
Accepted 19 March 2019
Published 25 April 2019

ABSTRACT

Corporate Social Responsibility is gaining more awareness in Zanzibar as the firms are recognizing the important role it plays on firm's performance. This research empirically examines the effect of corporate social responsibility and financial performance of hotels in Zanzibar. CSR is measured by cost paid for corporate social responsibility while financial performance is measured by using profitability measures such as ROA and ROE.

By utilizing panel data of 4 hotels for 7 years period from 2011-2017, the study uses ordinary least square method-random effect regression, model. The study found CSR has a significant positive effect on ROA and ROE of hotels in Zanzibar. The study also found that control variables (i.e leverage, R & D, size) have a significant effect on ROA and ROE. The study recommends more investment in CSR as a way of boosting hotels profitability.

Keywords: Corporate social responsibility; financial performance; hotel.

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1. INTRODUCTION

CSR into business activities has been realized as a very warming topic nowadays, for as customers, shareholders and other stakeholders show great importance in wanting this issue. CSR is a notion in which business organizations target interest of society by taking actions on the impact of their activities on suppliers, employees, customers, shareholders, communities and other stakeholders as well as their environment [1]. CSR can involve a range of activities such as working in partnership with local communities, socially sensitive investment, developing relationships with employees and customers and involving in activities for environmental conservation and sustainability [2].

CSR as a concept has not taken roots in Tanzania, but as a corporate practice in the country, it is a common phenomenon. There is an existence of unclear policies on CSR in Tanzania which cause companies rushing to claim CSR for their own advantage. Some companies use CSR as their strategies to gain public support in markets which help them sustain competitive advantage over others by using their social contributions to provide subconscious advertising [3].

At present, tourism and hospitality have interest in CSR. Some tourism experts believe that CSR activities affect the public image of the companies as well as financial performance. Tourism is one of the fastest growing industries in an economy as a service sector, growing at an average rate of 4% per annum. Over the past fifteen years, Zanzibar has been relying heavily on tourism in generating revenue. This has been generating 25% of Gross Domestic Product and generating about 80% of its foreign currency.

Hotel is a complement service of tourism through generating high revenue most hotels in Zanzibar has been practising CSR as it results in high impact in their financial performance so as to enhance GDP. In Zanzibar, hotels that do practice CSR are very decisive in generating social and business value simultaneously to be sustainable over time, as CSR has been considered as more costly hence reduce profitability. Hotels that practices CSR needs to provide great efforts to incorporate strategies to recognize that they have high profitability that add more cost. Without a doubt, CSR is a factor that affects business in the future. Most of the studies focus on the topic of CSR and Corporate financial performance on developed countries, thus current research on developing countries is limited especially in Tanzania Zanzibar. Basing on economic and environmental impact, the hotel sector is one among the most important firms of applying CSR activities. Hotel managers are becoming more aware of CSR activities, as they want to achieve high growth and long term profitability [4] and Baris, 2007). Therefore, this study focuses on CSR and financial performance of listed 4 Nungwi hotels in Zanzibar. Specifically, the study examines the impact of CSR on return on asset (ROA) and returns on equity (ROE of the four listed hotels at Nungwi in Zanzibar.

2. LITERATURE REVIEW

This part review theoretical and empirical literature on the concept of corporate social responsibility and its impact on financial performance (ROA and ROE). A concept of CSR refers to firms responding to social and environmental concerns in business operations and interaction with the stakeholders (Pe´rez& del Bosque, 2013). CSR includes social, environment and economic responsibility, [5,6,7].

Common CSR practices in business involve a company doing a production in favour of society and environment, eliminating waste, investing in infrastructure, developing for local to increase profit [8]. CSR is more needed in emerging economies and developing countries characterized by the weak institutional environment (Jamali & Mirshak, 2007). Due to the absence of strong standard policies in developing countries firms must play a wider role in society besides providing quality goods and services at reasonable prices and making returns for the shareholders [9]. CSR affect financial performance. Stakeholder theory explains how the organization builds its relationship with the external environment for the purpose of achieving organizational objectives [10]. Stakeholders that exert much pressure on companies to achieve external performance are owners, employees, customers, suppliers, investors, government, community, a trade association [11].

Firm's Financial Performance is an evaluation of how a firm (i.e management) can use its assets to generate revenue. It also shows how well a firm can utilize its assets in a period of time to show a firm's general financial health [12]. Firms measure their success through long term performance, which many firms now assess their success through CSR initiatives and corporate performance. CSR, when managed properly, creates value to the company and society [13]. Many studies have been conducted that shows various relationships between corporate social and financial performance.

As known, the company's primary objective is profit maximization in operating their business. In studies conducted previously, Berger and Drumwright (1999) found a positive relationship between CSR and corporate social performance, with high trust from stakeholders, employees and customers. Jenkins (2006) found that companies that practices CSR has a positive brand image than those that do not practice CSR. Jones and Sanders [14] McWilliams et al. [15] shows that the corporate good image can be used as a tool to attract stakeholders in showing a positive corporate image, which helps a company striving in a competitive market. Authors [16] found that firms that produce good quality products and services gain more trust from customers, grow positive word of mouth, maximize profit, have high customer retention power and build customer loyalty, from customers' perception. Sweeny, (2009) found a positive correlation between CSR and firm’s financial performance and this is because it affects the firm’s reputation, employee attraction and loyalty. Mishra and Suar [9] have found a positive relationship between CSR corporate financial performances. In employees' perception, the company's good image motivates employees in making more effort in their workplace and becoming more productive, which leads to great performance in the company. This is because a good reputation leads to positive performance (Bergh & Ketchen, 2010).

Choi et al. (2010) found a positive relation between CSR and CFP. The relation was due to the positive correlation between stockholder-weighted CSR and Tobin’s Q .Short term impact shows financial performance measured by accounting-based measures such as ROA, ROE (Inoue & Lee, 2011). According to the studies, the effect on CSP measured by short term profitability is much stronger than the effect resulted by long term profitability measured by market-based measure (Inoue & Lee, 2011). In the study of Inoue & Lee (2011) found a positive relation between CSR and CFP through the effect tested of five dimensions on CSR. Their result concluded that each dimension of CSR has a different impact on the short-run and long-run financial impact but the results obtained shows that CSR activities would improve the firm's profitability. Wu &Shen (2013) studies CSR in the banking industry where the results showed a positive relation on CSR and accounting-based financial measures (ROA, ROE, Net interest income) in the banking industry. Almsafir& Al-Smadi [17] used accounting-based measure to measure financial performance in Malaysia with control variables (firm’s size and revenue) and resulted CSR is positively related with ROA and ROE. Found that there is a positive and significant relationship between CSR and CFP in that CSR one year lagged is followed by improved CFP in the financial year [18]. It is also found CFP one year prior, however, does not seem to lead to decisions to engage in CSR.

On the other hand, Vance (1975) provided evidence that there was a negative relation between CSR and CFP measured by stock market returns in UK. Jensen, 2001 stated that the aim of the company is to maximize profit and not the well being of society, the study also states that social activity affects CFP negatively. Sundaram & Inkpen 2004 imposed that corporate socially responsibility activities puts pressure on the company's profit as it has no relation with the economic role of firms. There is also a study done by Brammer, Brooks & Pavelin which shows a negative relationship between corporate social responsibility and financial performance in UK listed firms. Garcia, & Rodriguez [19], showed how CSR activities impact business performance. The researchers selected 55 European firms, in which one group practised social responsibility and the other did not. This resulted in a group with CSR activities having a negative impact on business performance [19]. Chen et al. [20] observed that companies spend much time, effort and resources on cooperating CSR activities thus becomes costly and decrease in the company's profit. In having a decrease in financial performance, managers can reduce investing in CSR activities to bring about improved financial performance.

Some scholar observed no relationship between CSR and Financial Performance. Ulman, 1985; [15] & Siegel, 2001 found that the relation between CSR and CFP does not exist and that is due to many variables that impact the business. Even with the same accounting-based measure, some researchers get different findings in the research. There are some researchers who find that CSR has no impact on CFP to measure financial performance when using accounting-based measures. There is no relationship between CSR and CFP [21].

Based on the researchers' knowledge, most of the above literature shows the influence of CSR and CFP in financial institutions but there is no study that measured CSR by CSR costs over sales based on the hotels specifically in developing countries. Therefore this study examines the impact of CSR on return on asset (ROA) and return on equity (ROE of listed hotels in Zanzibar.

3. RESEARCH METHODOLOGY

This part presents the method used for analysis. This study utilizes OLS random effect model to determine the relationship between CSP and CFP. The total sample consists of 4 selected hotels at Nungwi in Zanzibar with years of observation over the period of 2011-2017. These hotels are selected as the data source because willing to report their social behaviour and as hotel industry plays a very important part in contributing to the GDP of the country. The sample consists of 4 listed hotels in Zanzibar which are located at Nungwi for the years 2011-2017. This research focuses on Nungwi because Nungwi hotels have been publicly reporting their CSR information.

3.1 Model Presentation

This study utilizes OLS random effect regression model is as follow in showing the effect of CSP on CFP. This regards the unobservable firm characteristics. Random effect model considers changeability of all variable that affects the corporate financial performance (CFP) [22]. This is the best method because hotels are operated due to change environment Random effect regression model of showing the impact of CSP on CFP is as follows;

$$CFP_{it}=\alpha_{0it}+\alpha_1 CSR_{it-1}+\alpha_2 Size_{it}+\alpha_3 Lev_{it}+\alpha_4 R\&D_{it}+\varepsilon_{it} \quad (1)$$

Where, CFP is the corporate financial performance; CSP is corporate social responsibility; $Size$ is size of the hotel; Lev is $Leverage$; $R\&D$ is research and development, ε is error component; α_0 is constant and $\alpha_1, \alpha_2, \alpha_3$ and α_4 are coefficients.

3.2 Measures of Variables

3.2.1 Corporate financial performance

It is a dependent variable. It is measured by using profitability (i.e, ROA and ROE) [22]. ROA measure ability on the management to utilize assets of the hotels while ROE is a net profit a firm earns through a percentage of shareholder's equity that measures how managers efficiently manage the capital invested by shareholders (Inoue & Lee, 2011). It is influenced by corporate social responsibility.

3.2.2 Corporate social responsibility

It is an independent variable. It measures by ln of previous year total cost paid for social responsibility divide by sales. It is expected to have a positive effect on financial performance because the increasing amount paid for social responsibility increase organization image that increases profitability [17], Almsafir& Al-Smadi, 2014.

There are many control variables used in this researches such as size, leverage; and research and development.

Size is one among the important control variable in considering CSR in firms that stress corporate financial performance [22] (Table 1). The effect of Hotel size is calculated by including the logarithm of total assets (ln (A)) of a hotel, (Yudistira, 2004). It is expected to have a positive impact on financial performance (Gamerschlag et al. 2011). The positive relationship between the size of the hotels and financial performance arises due to the fact that large hotels enjoy operating benefits by employing few professional managers and high technology and reduces other costs such as cost of information that increase profitability. Size of the hotels is included because normally the expansion of hotels leads to the increases job specialisation, and enjoyment of economies of scale that increase profitability.

Leverage is another important control variable. It is measured as a ratio of long-term debt to total assets. Leverage shows how hotels operate in high and low debt. High leverage ratio makes a hotels's profit to be influenced in a negative way because of the large amount of interest that hotels is supposed to pay (Inour & Lee, 2011). Thus reduces profitability. Firms with low leverage are more likely to engage in CSR activities than firms with high leverage ratio.

R&D is expected to have a positive impact on financial performance (Lin et al. 2009). Research and development lead to correct investments and efficient employees that lead to more profit in the hotels.

Table 1. Variable definitions

Variables	Definition	Expected sign
CFP		
ROA	EAITDA divided by book value of total assets	
ROE	EAITDA divided by book value of total equity	
CSR	Ln of previous year total cost paid for corporate social responsibility/ Total sales	+
Control variables		
Size	Ln of Book value of total assets	+
Lev	The ratio of long-term debt to total assets	_
R&D	The ratio of R&D expenses to total sales	+

4. RESULTS AND DISCUSSIONS

This part shows analysis of the results on the impact of corporate social responsibility on the financial performance of Nungwi hotels in Zanzibar where size, leverage and research and development are used as control variables. Before presenting the main results of random effect model; descriptive statistic, correlation analysis and houseman test are presented.

4.1 Descriptive Statistics

Table 2 shows the descriptive statistics for all variables used in this research. This panel data includes 4 hotels over the period of 2011 to 2017 for the Nungwi hotel firms in Zanzibar. This analysis gives an overview of the number of observations, mean, median, standard deviation, minimum and maximum.

The descriptive statistic shows that at least every hotel in the sample discloses some information. The mean value of the independent variable (CSR) is 0.0046; this means the selected hotels published 5 CSR keywords per 1000 words in the annual report. The CSP variable resulting in a positive mean value shows the sample hotels in this research are actively incorporating CSR activities.

The average ROA for the sample hotels is 0.0032. This is the lowest mean value. The leverage has the highest mean value. When mean values are compared by the variance of all variables, results confirm all variables meet the required standard.

4.2 Correlation Analysis

This analysis shows the correlation of all for the sample firms (hotels) in this study. The research looked at the correlation level between independent variables. Table 3 represents the correlation of independents variables used in this study to establish the existing correlation between variables.

Based on the above results all independent variables are not correlated. Therefore all independent variables can be used in the regression model.

4.3 Regression Results

This part analyses the results of random effect model regression on the effect of corporate social responsibility on financial performance (i.e ROA and ROE) of the hotels. Table 4 shows the effect of corporate social responsibility on ROA and ROE.

Table 2. Descriptive statistics

Variables	N	Mean	Median	Std Dev	Minimum	Maximum
CSP	140	0.004633	0.00443	0.004055	0.004055	0.005504
ROA	140	0.003219	0.022128	0.030555	0.087193	0.029252
ROE	140	0.009256	0.059287	0.0049792	0.247881	0.087451
R&D	140	0.003823	0.003654	0.000494	0.003264	0.004576
Leverage	140	0.655827	0.665483	0.026083	0.613732	0.693003
Size(mil)	140	0.833703	0.856488	0.053417	0.756923	0.909972

Table 3. Correlation matrix

Correlation Probability	CSR	Leverage	R___D	Size
CSR	1.000000			

LEVERAGE	-0.391665	1.000000		
	0.0000	-----		
R___D	0.598982	-0.390817	1.000000	
	0.0000	0.0000	-----	
SIZE	-0.135495	-0.213602	-0.125877	1.000000
	0.1004	0.0113	0.1084	-----

. Correlation is significant at the 0.01 and 0.05 level, respectively*

The results show a positively significant influence of CSP on ROA and ROE. The study complies with Wu and Shen [23] study and against [20]. This shows that improvements corporate social responsibility lead to increase the corporate financial profit hence increase performance. By increasing corporate social responsibility, profit increase due to the increasing image of hotels to the public and effort of employees on improving productivity.
;
The size of the firm is a significant positive influence both ROA and ROE. This shows when the size of the hotel increase, Hotels enjoys economies of scale and admitting many tourists. A hotel enjoys operating benefits by increases job specialisation, employing few professional managers, high technology and reduces other costs such as the cost of information. Thus increase sales volume that raises profit hence increase profitability.

The study also found a positive significant influence of leverage on ROA and ROE of the hotels.High leverage ratio makes hotels to earn more profit. This shows hotels do not pay much amount as interest and use debt efficiently as capital invested. Thus increase profitability.

R&D shows negative results and significantly impacts both ROA and ROE. This shows R&D increase unnecessary costs of the hotels and it does not lead to correct investments and efficient employment of the resources that lead to low profit in the hotels hence low profitability.

The Hausman test was performed before conducting random effect regression. The hypothesis is if Hausman Chi-square statistics is greater than the probability random effect model is favoured and if the Hausman Chi-square is less than the probability, random effect model is favoured. This shows that probability is greater than the Hausman Chi-square, thus, the random effect model can be used in this panel. Based on the rule of thumb general model is good because F statistic value is greater than 10 and p values shows significantly.

Table 4. Results of CSR on ROA and ROE

	ROA	ROE
CSP	3.114	8.75
	(7.48)	(7.54)
Size(mil)	0.35	1.02
	(8.28)	(8.58)
Leverage	0.53	1.65
	(5.76)	(6.41)
R&D	-671.6	-1882.4
	(6.93)	(-6.95)
Constant	15.57	43.63
	(7.14)	(7.16)
No. of observations	140	140
Adj-R sq	0.585	0.601
F-value	49.89	53.24
F-statistic	49.89611	53.24349
Prob(F-statistic)	0.000000	0.000000

5. CONCLUSION

This study shows high insight concerning the relationship between CSR and corporate financial performance in the form of ROA and ROE. This study used panel data of 4 Nungwi hotels covered a period of 2011-2017 to work with OLS random effect model. ROA and ROE were used as dependent variables, CSR as the main independent variable of the hotels. The study adds control variables such as leverage, R&D and size. The study found that corporate social responsibility (CSR) has positive and significant relation with hotel's financial performance in Zanzibar and all control variables are the significant positive impact of ROA and ROE except R&D has a significant negative impact. This is due to the competitive advantage achieved by CSR activities which resulted in customer loyalty which in turn increased hotels turnover. The study recommends firms to be socially responsible so as to see the value of the firm for the shareholders. The hotel managers should allocate many resources in different forms of CSR activities but it should make sure recourses are efficiently allocated by reducing cost through bargaining and improving quality to increase customer loyalty and growth. This is due to the fact that CSR activities enhance hotels performance in financial perspective. The government should encourage hotels to practice corporate social responsibility by reducing tax to their operation. Tax reduction will automatically make hotels to invest in CSR that increase profitability and hence economic growth and development because this sector contributes much in country's economy.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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Peer-review history:
The peer review history for this paper can be accessed here:
http://www.sdiarticle3.com/review-history/47704