

## **Corporate Social Responsibility and Financial Performance in Tourism Industry**

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**Keywords:** *Corporate Social Responsibility; Financial Performance; Tourism Industry; Sri Lanka*

### **Introduction**

Corporate Social Responsibility (CSR) is no longer considered a composition of voluntary activities in today's business world since it plays a significant role in developing a sustainable future for firms operating in an industry such as tourism. Today, tourism is the third-largest source of foreign exchange earnings in Sri Lanka and has shown an upsurge in growth after the end of the civil war in 2009. Tourist arrivals have grown from 447,890 in 2009 to 2,333,796 in 2018 and the Sri Lanka Tourism Development Authority is planning to double these numbers by 2020. The domain of CSR has been studied in several industries, but not in relation to the tourism industry, especially concerning the behavior of Financial Performance (FP) to CSR disclosure in Sri Lanka. Hence, the present study focused on how CSR and FP have behaved over the past five years in the tourism industry and it investigated the relationship between tourist arrivals and FP in the selected sector.

### **Objectives**

The purpose of this study is to fill the knowledge gap through empirical analysis, exploring the relationship between CSR and FP in the tourism industry in Sri Lanka. The study provides insights into the trend of CSR disclosure and FP in the tourism industry over the past five years.

### **Methodology**

A sample of 10 listed hotel firms were selected based on systematic sampling method. The data were gathered through a desktop method using five annual reports for the period 2014-2018. Initially, a content analysis was carried out to identify CSR related

information. Accordingly, preliminary work was exercised to develop a checklist of CSR related keywords based on the literature (Hackston and Milne, 1996; Inoue and Lee, 2011; Maqbool and Zameer, 2018). The checklist contained 190 keywords relating to five CSR dimensions *viz.* community, employee relations, environment, product quality and diversity. Later the theoretical thematic analysis by Braun and Clarke (2006) was adopted to deepen the analysis. Under thematic analysis, CSR related information disclosed were categorized into 62 CSR sub-themes. These sub-themes were derived from the previously developed CSR checklist.

A set of decision rules were also developed to maintain consistency in analyzing annual reports (Hackston and Milne, 1996). Repetition of these keywords and sub-themes were then converted into Nila units (Nuzula and Kato, 2010) to measure CSR performance of each firm. Average Annual Nila Unit Percentage (ANUP) of each year was then calculated to identify the trend of CSR disclosure during the considered period. The financial aspect of firms was evaluated using Return on Equity (ROE) ratios. Average Return on Equity (AROE) of each year was then derived to identify how FP of the selected industry has behaved during the selected period.

## **Results and Discussion**

Average annual growth rate of ANUP is 5.54 %. Furthermore, annual growth rates of ANUP have varied between 13.77 % to 1.35 %, depicting an inconsistency in growth during the considered period. Hence, study reveals a positive but slight incremental trend of CSR disclosure. However, overall growth of ANUP from 2014 to 2018 is 24.05 %. Though, this figure may look attractive at first glance, the annual average growth rate is only 5.54 %. This illustrates slow growth in the overall level of CSR disclosure in the period between 2014-2018 (Table 1). When it comes to dimensions of CSR, it is observed that most of the information disclosed relates to “employee relation” and “community” with an average weight of disclosure of 37 % and 23 % respectively during the considered period. “Environment” and “Product quality” are given weights of 19 % and 16 %, respectively, with diversity being at only 6 % (Table 2).

Table 1: Trend in CSR Disclosure and FP

	C	ER	EN	PQ	D
Avg. Weight of Disclosure	23 %	37 %	19 %	16 %	6 %

Table 2: Average Importance during the Period

Financial Year	Annual Growth of CSR and ROE (%)				AAGR	2014-2018 (%)
	14/15	15/16	16/17	17/18		
ANUP (CSR)	13.77	4.18	1.35	3.27	5.54	24.05
AROE (FP)	-11.17	-14.52	-6.06	-11.46	-10.86	-36.85

Table 3: Correlation between CSR and FP

		Mean_ROE	Mean_CSR
Mean_ROE	Pearson Correlation	1	-.959**
	Sig. (2-tailed)		.010
	N	5	5
Mean_CSR	Pearson Correlation	-.959**	1
	Sig. (2-tailed)	.010	
	N	5	5

The study also found that there is a decreasing trend in AROE during the five years examined. Between 2014 and 2018, AROE has shown a decline of minus (-) 36.85 % with an annual average decline rate of -10.86 % (Table 1). Therefore, a significant decrease in AROE during the period is evident. Based on Pearson correlation, it was established that a negative but strong correlation of -0.959 exists between CSR and FP with a P-value of 0.010. Data set includes five cases, which represents data relating to the ten hotel firms for the five years considered. For the present study, the significance level is required to be less than 0.05 for the relationship to be significant. Hence, based on the findings of the present study, a statistically significant, negative relationship between CSR and FP is evident in the tourism industry of Sri Lanka.

## Conclusion

Findings of the study reveal a slight but incremental trend in CSR disclosure of the tourism industry. However, the growth of the CSR disclosure trend in the past few years is not consistent. Furthermore, the highest proportion of information disclosed in annual reports relates to dimensions such as

employee relations, community and environment. Moreover, it is evident that, though tourist arrivals have continued to increase over the years, AROE of the industry has shown a significant drop. Furthermore, the study concludes that there is a strong negative relationship between CSR and FP in the tourism industry of Sri Lanka. This problematic situation prevailing in the industry requires proper attention from the governing bodies of the country. This study becomes very vital for the policymakers to design countermeasures to protect the industry and its negativity highlights the need for further research whether the going concern of the companies in the tourism industry is in danger. The study also raises the question of whether the tourism industry is ignorant of CSR activities. As a result, it provides a further opportunity for future research in this domain.

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