

## “Doing Well” by “Doing Good”? Evidence from Tourism-Related Firms in Four South Asia Countries

(“Memperoleh Kejayaan” dengan “Melakukan Kebaikan”? Bukti dari Firma Berkaitan Pelancongan di Empat Negara Asia Selatan)

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### ABSTRACT

*This study explores the corporate giving and financial performance nexus in tourism-related firms from four South Asia countries. Specifically, this study investigates if there exists an inverse U-shaped link between corporate giving and financial performance and assesses the potential bi-directional relationship between these two variables. Results generated from system-GMM estimator reveal that the effects of corporate giving on both ROA and Tobin's Q are curvilinear. In particular, an inverse U-shaped relationship is observed, implying that firms are rewarded for their corporate giving engagement, which denotes “doing-good” leads to “doing well,” within a certain limit. Interestingly, this study also finds evidence that the firms which perform well financially are shown to engage less in corporate giving. Specifically, “doing-well” firms are shown to lead to lower level of “doing good,” supporting the management opportunity hypothesis. This study has policy implications in pushing for further CSR initiatives in other industries and emerging markets.*

*Keywords: Corporate giving; firm performance; bi-directional relation; system GMM*

### ABSTRAK

*Kajian ini meninjau hubungan kait pemberian korporat dan prestasi kewangan firma berkaitan pelancongan di empat negara Asia Selatan. Khususnya, kajian ini menyiasat sama ada hubungan bentuk-U songsang wujud di antara pemberian korporat dan prestasi kewangan dan menilai potensi hubungan dua hala di antara kedua-dua pemboleh ubah ini. Hasil dapatan yang diterbitkan daripada penganggar sistem GMM memperlihatkan bahawa kesan terhadap pemberian korporat terhadap kedua-dua ROA dan Tobin Q adalah garis melengkung. Terutamanya, kewujudan hubungan bentuk-U songsang membayangkan bahawa firma mendapat ganjaran apabila berurusan dengan pemberian korporat, yang mana bermaksud “melakukan kebaikan” membawa kepada “memperoleh kejayaan” sehingga ke satu tahap tertentu. Menariknya, hasil kajian ini juga mendapati bahawa firma yang menunjukkan prestasi yang baik dari segi kewangan didapati kurang melakukan pemberian korporat. Terutamanya, firma yang “memperoleh kejayaan” didapati menjurus kepada “melakukan kebaikan” pada tahap yang rendah, yakni, menyokong hipotesis peluang pengurusan. Implikasi polisi kajian ini menyarankan penekanan seterusnya untuk inisiatif CSR dalam industri lain dan di pasaran baru.*

*Kata kunci: Sumbangan korporat; prestasi firma; hubungan dua hala; sistem GMM*

### INTRODUCTION

Using empirical data from the tourism-related firms across South Asia countries, this study contributes to understanding how corporate giving (CG), part of corporate social responsibility (CSR), affects a firm's financial performance (FP). The topic of CG has become a central focus of businesses and corporations' rejuvenation efforts since the past decade, where most of the firms have started to incorporate CSR practices and principles into their business strategies. From a firm's perspective, wealth

accumulation is its fundamental goal to achieve. If the engagements of CG contribute to firm's fundamental goal, this practice may be embedded in organisational practices within the sector for their sustainable development. Hence, this raises an important research question as whether there is a causal relationship between CSR, in particular, CG, and firm performance. More specifically, will “doing-good” lead firms to “doing-well”?

The relationship between CG and FP has come under increased investigation, by both academicians and industrial practitioners (Brammer & Millington 2008;

Lev, Petrovits & Radhakrishnan 2010; Wang, Choi & Li 2008). By conducting a meta-analysis, Orlitzky, Schmidt and Rynes (2003) supported a positive CG-FP link. On the contrary, Berman et al. (1999), and Seifert, Morris, and Bartkus (2004) reported an insignificant relationship between both variables.

In evaluating the relationship between CG and FP, Wang et al. (2008) hypothesised that the CG-FP link should be curvilinear. According to their postulation, corporate giving are expected to contribute positively to firm performance, initially owing to favourable stakeholder reactions and the effect of managerial learning in organising these activities. These benefits would be expected to eventually level off at higher levels of CG. Meanwhile, while stakeholders placed fewer concerns on the managerial misuse of resources at low levels of corporate giving contribution, greater concerns about the potential for misconduct by managers arises when CG contributions become excessive. As a consequence, the agency cost ascends. Based on the above arguments, Wang et al. (2008) therefore proposed an inverse U-shaped relationship between CG and FP.

Using a panel data set of 817 firms listed in the Taft Corporate Giving Directory over a 13-year period, Wang et al. (2008) revealed that corporate philanthropy contributes to financial performance only to a certain point, upon which increasing philanthropy has a negative effect on financial performance. Specifically, they detected an inverse U-shaped relationship between CG and return on asset (ROA), and between CG and Tobin's Q. In other words, an increased CG can enhance ROA and Tobin's Q. However, as the level of CG reached a certain point, an increase in CG could have a negative influence on ROA and on Tobin's Q. The inverse U-shaped relationship between CG and FP are further supported by Chen and Lin (2015a) using a sample of 13 publicly listed tourism-related firms in Taiwan over the 1996 to 2011 period.

The issue tends to be more complicated since, within the CG-FP literature, there is also an ongoing debate on the potential recursive relationship between CG and FP. In other words, there have been alternative perspectives on the direction of causality to be contrasted.

This study aims to fill the above-mentioned gaps by investigating the symbiotic performance relationship between CG and FP in the tourism-related firms (airline, hotel and restaurant). Specifically, this study first attempts to examine the curvilinear relationship between CG and FP within the tourism-related firms across four South Asia countries. Moreover, it also explores the potential bi-directional relationship between CG and FP, if any, an issue that prior research has identified as meriting attention.

This study is innovative in two respects. First, this study considers how CG in affecting the FP of publicly-listed tourism-related firms in emerging economies, in particular, four South Asia economies. It is no doubt that tourism industry can help creating income and jobs which boost destination economies and raise standards of living, however, its adverse repercussions have exposed

the industry to strong criticism. Initiatives for CSR in the tourism-related sector have been put forth over the past decade (Holcomb, Upchurch & Okumus 2007). Unlike the other industries, by its very nature, the corporate accomplishment of tourism-related firms relies heavily on customer capital. Fombrun and Shanley (1990) stated that while a firm required a long time span to build a favourable image; one unfavourable incident in one day can destroy it. Hence, corporations who fail to implement CSR practices, as noted by Aras and Crowther (2010), could lose their business opportunities and competitive advantage. The existing research on the effects of CG on FP have mainly conducted for developed economies, such as the U.K. (Brammer & Millington 2008) and the U.S. (Lev et al. 2010; Seifert et al. 2004; Wang et al. 2008) and recently on Taiwan (Chen & Lin 2015a; Chen, Lin, Tian & Yang 2017; Wang, Chen, Lin & Hu 2019) and China (Wang, Miao, Chen & Du 2018). Limited research studies have examined if CG affects the FP in other emerging economies.

It is observed that the CG in South Asia economies has grown phenomenally in recent decades. For instance, CG represents 0.3 and 0.4 percent of GDP in India, and the giving amount raised by 50 percent from 2011 to 2012. This study therefore considers a unique data set from various emerging economies across the South Asia region for the period spanning from 2002 to 2014. The economies under study are Bangladesh, India, Sri Lanka and Pakistan<sup>1</sup>. To the best of our knowledge, this study is a few exceptions which conduct cross-country analysis within the tourism context.

Second, it is observed that apart from the mixed results evidenced in previous literature, many of the existing research do not take time dependence into consideration. It is, therefore, difficult to determine whether CG contributions (doing good) leads to higher performance in the market (doing well), or if financially successful firms (doing well) precedes firms to contribute more proactively in CG (doing good). To fill the gap, this study explicitly models the timing issues of CG and FP with well-established technique – dynamic panel. By doing so, it provides managers and practitioners with clear insight for better CSR practice among tourism-related firms.

The rest of the study is organised as follows. Section 2 presents the relevant literature and hypothesis. Section 3 describes the data, variables and model specifications. Section 4 presents the results and discussions. Section 5 concludes.

#### LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Corporate giving (CG), as part of CSR, has been acknowledged by various stakeholders as a fundamental component for a firm's success (Carroll 2004; Lee & Park 2009; Porter & Kramer 2006; Vogel 2005). Corporate giving is the discretionary activity by corporations in which a portion of the profits or resources of firms are

contributed to the society or non-profit organisations. CG can be in the form of cash or in-kind gifts to support for various societal benefits, such as education, culture, minorities, healthcare and the environment (Godfrey 2005; Wang et al. 2008).

CG may generate benefits to firms specifically by creating an overall positive reputation. A favourable firm reputation can enhance the ability of the firm to attract and retain a higher quality of human capital, higher customer and supplier loyalty, and increased firm sales (Peterson 2004). A positive reputation could reduce not only financial and operating risks (McGuire, Sundgren & Schneeweis 1988), but also social and environmental risks of firms (Sharfman & Frenando 2008; Vogel 2005), which in turn generate comparative advantages and subsequently improve the firm performance.

While CG has been viewed as an opportunity, it may also be a threat to a business. Critiques of CG, on the other hand, argue that social responsibility CG incurs business expenses (a direct cost) and thus deteriorates a firm's competitive position (Friedman 1970). Apart from this direct cost, CG can breed additional agency costs, specifically, when managers or board of directors allocate excessive corporate giving for their own interests, even at the cost of shareholders (Barnett 2007; Wang et al. 2008).

#### CORPORATE GIVING AND FINANCIAL PERFORMANCE NEXUS

The existing body of the literature on CSR introduces three fundamental concepts: good management theory, social impact hypothesis and trade-off hypothesis. Based on good management theory, firms with good management are expected to pay attention to CSR dimensions, which lead them to a favourable performance later (Freeman 1984; McGuire et al. 1988; Waddock & Graves 1997). The "social impact hypothesis," as proposed by Cornell and Shapiro (1987), states that fulfilling the demands of stakeholders enhance a positive image of the firm which leads them to perform better (Freeman 1984). The trade-off hypothesis, on the other hand, posits that firms' engagement in socially responsible activities incur costs which will reduce firm profits and shareholder wealth (comparative performance), implying a negative impact of CG on FP (Vance 1975). In summary, under the good management theory, social impact and trade-off hypotheses, CG would be a predictor of FP.

Although the effect of corporate giving is recognised in literature, the CG-FP link, according to Wang et al. (2008), should be curvilinear. According to their postulation, although CG helps to reduce the firms' risk exposure by securing critical resources controlled by various stakeholders, the benefits generated from excessive CG will be level off eventually due to constraints on stakeholder support. The positive effect will be outweighed by the ascending direct and agency costs. As a consequence, an

inverse U-shape link is postulated between the corporate giving and financial performance.

Contrary to the earlier arguments, slack resources theory and managerial opportunism hypothesis on the other hand postulate that firm's performance leads the decisions on CSR. The "slack resources theory" assumes that firms which have superior performance will have more financial resource slack to invest in socially responsible activities including to make higher corporate giving (Waddock & Graves 1997). By contrary, managerial opportunism hypothesis proposes that when a firm is doing well, corporate managers may reduce spending on socially responsible domains in order to maximise their own interests (Preston & O'Bannon 1997). To sum up, according to the "slack resources theory" and "managerial opportunism hypothesis," CG is determined by FP, not vice versa.

The relationship between CG and FP has been studied in the various industries and different countries, however, the findings remained inconclusive (see Brammer & Millington 2008; Lev et al. 2010; Seifert et al. 2004; Wang et al. 2008).

In the tourism research literature, with the exception of Chen and Lin (2015a) and Chen et al. (2017), majority of the research focused on CSR and FP and the findings are inconclusive (Garay & Font 2012; Kim & Kim 2014; Lee & Park 2009). In particular, while Garay and Font (2012) and Kim and Kim (2014) revealed that CSR enhance shareholder value of publicly listed tourism-related firms, Lee and Park (2009) found no relationship between the CSR and tourism-related firm performance.

By utilising a sample of 13 publicly listed tourism-related firms in Taiwan over the 1996 to 2011 period, Chen and Lin (2015a) supported the inverse U-shaped relationship proposed by Wang et al. (2008). A recent study by Chen et al. (2017) justified that the optimal level of a tourism-related firm's CG is positively related to the total market demand and the competitive advantage of CG, and negatively related to the induced cost of giving practices. However, Chen et al. (2017) also emphasised that that a positive or neutral relationship between CG and firm performance depends on whether CG could induce a competitive advantage of brand differentiation and customer loyalty to increase profit.

To date, however, the direction of causality remains an open empirical question (Brammer & Pavelin 2008; Chen & Lin 2015a). Do profitable firms are likely to have discretionary funds to contribute to CG? This question remains unanswered in the tourism research literature.

Recognising the abovementioned literature, this study posits that:

- H<sub>1a</sub> The corporate giving positively affects the financial performance
- H<sub>1b</sub> The effect of corporate giving on financial performance is curvilinear (an inverse U-shaped)
- H<sub>2</sub> There is a bi-directional relationship between corporate giving and financial performance

## DATA, VARIABLES DESCRIPTION AND MODEL SPECIFICATIONS

### DATA AND VARIABLES DESCRIPTION

This study scrutinises the effects of CG on FP taking into account both linear and curvilinear relationships. The sample consists of 51 tourism-related firms. The data is obtained as follows. First, all the tourism-related firms listed on the four South Asia countries (namely India, Bangladesh, Sri Lanka and Pakistan) were identified and initially 99 firms were listed. Since the key construct of the study is corporate giving, those firms without reporting on this item were excluded from the final sample, and the final sample was narrowed down to 51 companies. Description of the sample companies can be found in Table 1. The data comprises an unbalanced panel and the period of investigation is the thirteen-year period from 2002 to 2014. The data used were retrieved from the Bloomberg database.

TABLE 1. Sample information

Country	Tourism-related firms listed	Selected tourism-related firms	Sample % of listed tourism-related firms
Bangladesh	3	2	67%
India	77	35	45%
Pakistan	3	2	67%
Sri Lanka	16	12	75%
Total	99	51	52%

Note: Tourism-related firms under study are airline, hotel and restaurant.

Empirical studies examining the link between corporate social performance (including corporate giving) and financial performance have used different measures of financial performance. Among the measures of financial performance widely used are accounting-based measures of profitability, or market-based measures (Platonova et al. 2018; Waddock & Graves 1997). The assessment of financial performance of this study is conducted using both accounting-based and market-based indicators. In particular, return on assets (ROA) and Tobin's Q are used to represent the measures of accounting-based and market-based performance respectively. ROA has generally been perceived in the literature as indicative of past or short-term financial performance as it measures the performance focusing on a specified past accounting time frame. Unlike ROA, Tobin's Q measures capture future or long-term financial performance (Platonova et al. 2018).

The key variable of interest in this study is corporate giving (CG). CG refers to total amount of all donations as reported by the firm, it is computed as the ratio of the total value of CG to sales revenue. Figure 1 illustrates the distribution of the yearly corporate giving (in US\$ million) for the firms under investigation.

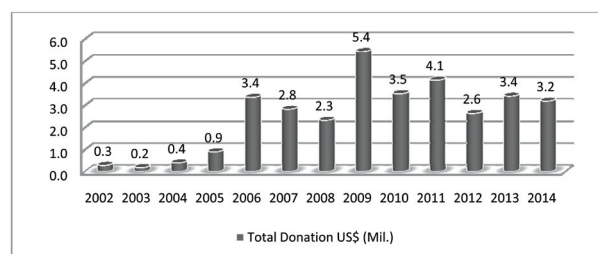


FIGURE 1. The distribution of the yearly corporate giving

Four control variables, which are commonly used in the prior literature in examining the CG and FP, are included: firm size (SIZE), firm age (AGE), financial leverage (LEV) and growth rate of sales (SALESG). SIZE is computed using the natural logarithm of the total assets. It reflects the market power of firms and thus their ability to adapt to economic and social change (Chen 2010). AGE is measured as the natural logarithm of the number of years since the inception of the firm in the stock exchange. It proxies for firm's maturity. SALESG, computed as the annual growth in total sales revenue, represents the growth opportunities of firm (Anderson & Reeb 2003). LEV, calculated as total debt divided by total equity, measures firm's ability to meet long-term obligations (Ross, Westerfield & Jordan 2008). A descriptive statistics for the data set is presented in Table 2. From the panel B of Table 2, it is observed that the correlation coefficients among independent and control variables are all well below the threshold of 0.80, implying that the multicollinearity is not a serious concern for this estimation (Damodar 2004).

### MODEL SPECIFICATION AND METHODOLOGY

In testing the CSR (CG)-FP relationship, two popular approaches, namely fixed-effects (FE) and traditional instrumental variable (IV), are widely used in the literature. These techniques, however, have recently been criticised as there are not able to control for the dynamic endogeneity (Wintoki et al. 2012). In addition, Flannery and Hankins (2013) highlighted the difficulty in obtaining the reliable external instruments in applying the traditional IV approach. To overcome the above-mentioned difficulties, this study applied the two-step System GMM estimator (Blundell & Bond 1998) as it allows for "a short panel, a dynamic dependent variable, fixed effects and a lack of good external instruments" (Roodman 2006, 2009). Beyond that, unlike other GMM estimation, system-GMM is suitable to avoid magnifying gaps owing to the unbalanced panel (Roodman 2009).

This study thus employs dynamic panel model estimator as propounded by Arellano and Bover (1995) and fully developed in Blundell and Bond (1998) to examine the relationship between corporate giving and financial performance in these tourism-related firms. In order to achieve this, a framework dynamic panel regression model to capture the relationship between



TABLE 2. Summary statistics of study variables

A: Descriptive statistics							
	CG	ROA	Tobin’s Q	Size	Age	SalesG	Leverage
Mean	0.123	4.323	1.516	3.384	2.481	13.544	2.328
Median	0.023	4.672	1.230	3.092	2.708	8.648	1.707
Maximum	2.901	19.166	4.968	7.677	3.296	179.555	21.762
Minimum	0.000	-25.073	0.274	0.321	0.000	-55.187	1.042
Std. Dev.	0.332	6.336	0.883	1.626	0.761	29.940	2.022
Observations	394	394	394	394	394	394	394
B: Correlation matrix							
	CG	ROA	Tobin’s Q	Size	Age	SalesG	Leverage
CG	1.000						
ROA	0.100	1.000					
Tobin’s Q	0.069	0.475	1.000				
Size	0.215	-0.127	-0.100	1.000			
Age	-0.058	-0.054	-0.080	0.205	1.000		
SalesG	-0.111	0.040	0.110	-0.032	-0.240	1.000	
Leverage	-0.171	-0.437	-0.194	0.258	0.226	-0.116	1.000

Note: CG = corporate giving/ sales revenue. ROA = net income/total assets. Tobin’s Q = market value of a firm/replacement costs of assets. Size = the natural logarithm of the total assets. Age = the natural logarithm of the years in which a firm is listed. SalesG = the growth rate of sales avenue. Leverage = total debt/total equity.

corporate giving (CG) and financial performance (FP) is specified as follows:

$$FP_{it} = \alpha + \lambda FP_{it-1} + \beta CG_{it-1} \delta Z_{jit} + \varepsilon_{it} \quad (1a)$$

where:  $\lambda, \beta,$  and  $\delta$  refer to vectors of coefficients on lagged dependent variable,  $FP_{it-1}$ , lagged of corporate giving variables  $CG_{it-1}$ , and controls,  $Z_{it}$ , respectively  $\varepsilon_{it}$ ; denote the residuals;  $i$  indicates firms and  $t$  indicates period, and  $j$  is the number of included control variables.

As described in the earlier section, FP represents firm’s financial performance and will be proxied by ROA and Tobin’s Q. CG is the corporate giving, measured by the total value of CG scaled by sales revenue. To capture the persistent corporate behaviour of involvement in CSR, this study follows Lev et al. (2010) and Chen and Lin (2015b) in using the lagged of CG, instead of current CG in modelling the CG-FP relationship. Four control variables (Z) considered in this study are: SIZE and AGE are firm size and age, respectively; SALEG and LEV are the growth of sales and financial leverage, respectively.

To investigate if there is a curvilinear relationship between the CG and FP, Wang et al. (2008) and Chen and Lin (2015a) propose to include a quadratic term as below:

$$FP_{it} = \alpha + \lambda FP_{it-1} + \beta_1 CG_{it-1} + \beta_2 CG_{it-1}^2 + \delta Z_{jit} + \varepsilon_{it} \quad (1b)$$

The inverse U-shaped relationship is supported if  $\beta_1(\beta_2)$  is significantly positive (negative).

In addition, to assess the potential bi-directional relationship between the FP on CG, the following corporate giving equation is developed:

$$CG_{it} = \mu + \rho CG_{it-1} + \pi FP_{it-1} + \sigma Z_{jit} = u_{it} \quad (2)$$

where, CG, FP, SIZE, AGE, SALESG and LEV are as described in equation (1a).

For corporate giving equation (equation 2), as corporate giving is closely dependent upon resources that are already available (Waddock & Graves 1997), lagged financial performance variable ( $FP_{i,t-1}$ ) is used as a regressor. To capture the dynamic nature of the CG-FP relationship, the lagged dependent variables,  $FP_{i,t-1}$  and  $CG_{i,t-1}$ , are included as one of the regressors in equations (1a,1b), and (2), respectively. The bi-directional relationship will be supported if (from equation 1a or 1b) and (from equation 2) are significantly different from zero.

## EMPIRICAL FINDINGS AND DISCUSSIONS

Table 3 presents the results of various model specifications using system GMM estimators. Prior to the discussion on the empirical analysis, some diagnostic tests are scrutinised. To verify the validity of these assumptions, this study use Arellano-Bond test for no serial correlation in the error terms (AR(2)), Sargan test for the instruments, and Difference-in-Hansen test for additional moment restrictions. As shown at the bottom of Tables 3 to 5, the insignificant results of these tests implying that all System GMM equations are properly specified.

### RESULTS OF THE FINANCIAL PERFORMANCE EQUATION

Table 3 presents the estimation results for the FP equation (measured by ROA and Tobin’s Q). Columns (1) and (3)

TABLE 3. Results of system-GMM of CG and CG<sup>2</sup> on ROA and Tobin's Q

Variable	Financial Performance equation			
	ROA <sub>i,t</sub> (1)	ROA <sub>i,t</sub> (2)	Tobin's Q <sub>i,t</sub> (3)	Tobin's Q <sub>i,t</sub> (4)
ROA <sub>i,t-1</sub>	0.743 (0.054)*	0.771 (0.000)***	–	–
Tobin's Q <sub>i,t-1</sub>	–	–	0.455 (0.000)***	0.477 (0.000)***
CG <sub>i,t-1</sub>	0.695 (0.043)**	2.865 (0.027)**	0.133 (0.459)	0.514 (0.088)*
CG <sup>2</sup> <sub>i,t-1</sub>	–	-0.816 (0.068)*	–	-0.124 (0.052)**
Size <sub>i,t</sub>	-0.588 (0.026)**	-0.813 (0.005)***	-0.081 (0.046)**	-0.085 (0.047)**
Age <sub>i,t</sub>	0.910 (0.245)	0.627 (0.471)	-0.197 (0.076)*	-0.151 (0.149)
SalesG <sub>i,t</sub>	0.015 (0.000)***	0.016 (0.001)***	0.002 (0.055)*	0.002 (0.035)**
Leverage <sub>i,t</sub>	-0.012 (0.940)	-0.069 (0.589)	0.015 (0.358)	0.022 (0.272)
Constant	2.201 (0.280)	3.534 (0.063)*	0.787 (0.030)**	0.623 (0.063)*
Year dummies	Yes	Yes	Yes	Yes
# instruments	23	33	29	28
# groups	51	51	51	51
# observations	389	389	389	389
AR(2) (p-value)	0.241	0.267	0.777	0.815
Sargan test (p-value)	0.450	0.969	0.946	0.375
Diff-in-Hansen test (p-value)	0.178	0.507	0.367	0.148

Note: \*, \*\*, \*\*\* indicate significant at 10, 5, and 1% significant level. Definition of variables is as reported in Table 2. The p-value reported AR(2) are for second order autocorrelated disturbances. Sargan test reports the p-values for the null that instruments are valid. Diff-in-Hansen test reports the p-values for the validity of the additional moment restrictions that are necessary for system GMM.

report the results for linear relationship as according to equation (1a) while columns (2) and (4) are with quadratic term as shown in equation (1b).

As shown in column (1) and (3), the coefficients for CG are shown to be positive and significant at 5% level ( $\beta = 0.695$ ,  $p = 0.043$ ) for ROA but insignificant ( $\beta = 0.133$ ,  $p = 0.459$ ) on Tobin's Q. Hence, the positive and linear CG-FP relationship is only supported for ROA but not Tobin's Q.

However, when the quadratic term is included (column (2) and (4)), results revealed that the key variables, CG, are shown to be positive and statistically significant for both ROA ( $\beta = 2.865$ ,  $p = 0.027$ ) and Tobin's Q ( $\beta = 0.514$ ,  $p = 0.088$ ) equations, indicating that firms are rewarded for doing good. In their recent study on the CG-FP link, Wang et al. (2008) and Chen and Lin (2015a) both supported that engagements on CG lead to better FP, based on a sample of firms from hotel industry in the U.S. and Taiwan respectively.

In other words, the CG contributions of firms are crucial not only for short term profitability but also for future prospective. According to Simon (1995), firms should consider CG a strategy of long-term competitiveness. Since the relationship between FP and CG is evidenced to be significant, tourism-related firms may consider embedding a multi-period giving strategy in organisational practices.

Besides the positive and significant CG, the coefficients for CG<sup>2</sup> are found to be negative and statistically significant in both models ( $\beta = -0.816$  for ROA and  $\beta = -0.124$  for Tobin's Q). Hence, instead of positive linear relationship, an inverse U-shaped link is supported. This finding implies

that although market rewards firms for doing good, as CG continues to increase beyond the optimal point, the costs of social activities engagement surpass their potential benefits (Waddock & Graves 1997), and firm's performance deteriorates. With that, these results concur the findings evidenced by Wang et al. (2008), Chen and Lin (2015a), Wang et al. (2018) that there is a curvilinear relationship between CG and FP.

Given the existence of inverse U-shaped, it would be crucial to discuss on the optimal CG point to understand if firms contribute too much or too little during the studied period. Based on the estimation provided, the optimal CG level which maximises the ROA and TQ are 1.76% ( $=2.865/(-0.816*2)$ )<sup>2</sup> and 1.20% ( $=0.514/(-0.124*2)$ ), respectively. These figures are higher than the sample mean of CG for the studied firms from 2002 to 2014 (0.12% as shown in Table 2). More specifically, the size of CG that maximises ROA and Tobin's Q is about 15 times and 10 times that of the study sample mean, respectively. Hence, based on the sample period, while firms could do well by doing good, they seemed to donate too little to CG. To fully realise their financial benefits, firms may consider engaging more actively in CG. However, the proposed optimal points are averaged values of all 51 sample firms for the entire sample period. This may not be precisely applicable to each firm, and each firm is encouraged to seek its own optimal range for their social activities, if possible.

Regarding control variables, firm size is shown to have a negative impact on both financial performance measures – ROA and Tobin's Q, implying that smaller firms tend to be more profitable, be it in short term or future.

The significant positive relationship between the growth of sales and two performance measures, on the other hand, may imply that more profitable firms are high growth in nature. Firm age and financial leverage are not significant in affecting both financial performances. The lagged performance measures are highly significant, implying the dynamic structure of the financial performance.

RESULTS OF THE CORPORATE GIVING EQUATION

The results of potential bi-directional relationship are presented in Table 4. Columns (1) and (2) report the estimation results in which the financial performance is measured by ROA and Tobin’s Q, respectively.

TABLE 4. Results of system-GMM of ROA or Tobin’s Q on corporate giving

Variable	Corporate Giving equation	
	CG <sub>i,t</sub> (1)	CG <sub>i,t</sub> (2)
CG <sub>i,t-1</sub>	0.885 (0.000)***	0.895 (0.000)***
ROA <sub>i,t-1</sub>	-0.002 (0.020)**	--
Tobin’s Q <sub>i,t-1</sub>	--	-0.028 (0.056)*
Size <sub>i,t</sub>	0.008 (0.262)	0.004 (0.465)
Age <sub>i,t</sub>	0.008 (0.560)	-0.001 (0.870)
SalesG <sub>i,t</sub>	0.000 (0.532)	0.000 (0.561)
Leverage <sub>i,t</sub>	-1.004 (0.356)	-0.004 (0.383)
Constant	-0.013 (0.851)	-0.009 (0.908)
Year dummies	Yes	Yes
# instruments	33	33
# groups	51	51
# observations	354	389
AR(2) (p-value)	0.447	0.650
Sargan test (p-value)	0.221	0.375
Diff-in-Hansen test (p-value)	0.578	0.148

Note: As per Table 3.

In column (1), the coefficient of ROA is shown to be negative and statistically significant at 5% ( $\beta = -0.002$ ,  $p = 0.020$ ). The coefficient of Tobin’s Q, as shown in column (2), also revealed a similar pattern, where the coefficient is negative and statistically significant at 10% ( $\beta = -0.028$ ,  $p = 0.056$ ). Both of these significant results therefore suggested that the better the firm’s financial performance, the lower the corporate giving. This finding therefore reports a contradict view with the slack resource theory. However, this negative FP-CG link is consistent with the managerial opportunism hypothesis that managers may keen to improve the shareholders’ wealth by spending less on social activities engagement (Preston and O’Bannon, 1997). Alternately, it implies that firms may spend less in social activities in order to use excessive cash for their growth potential.

For the controls, results reported that none of them turn up to be significant in determining CG. The lagged CG, however, is highly significant in both CG equations, providing empirical evidence of the dynamic structure of corporate giving.

For robustness check, all models are rerun by including current and additional lags of key variables. Table 5 presents the findings. Panel A presents the results on FP equation (to test if the lags of CG lead FP) while Panel B reports the findings on CG equation (to investigate if the lags of FP lead CG). Consistent with results reported earlier, the estimation results suggest that the financial performance of tourism-related firms is determined by corporate giving. On the other hand, “doing-well” (more profitable) firms are shown to involve less in corporate giving activities. This suggests that the causality runs from CG to FP, vice versa.

SUMMARY AND CONCLUSIONS

This study addresses two key questions: “How does CG relate to FP?”, and “Does CG precede FP, or, FP precede CG?” Based on the sample of 51 tourism-related firms from four Asia-Pacific countries, this study reports an inverse U-shaped link between CG and FP. Besides, the findings also conclude a bi-directional relationship between the two variables. Specifically, while “doing-good” (CG engagement) precedes “doing-well”, firms which “do well” lead to lower levels of “doing-good”.

The findings have a number of practical implications. From a firm’s perspective, wealth accumulation is its fundamental goal to achieve. If the engagements of CG contribute to firm’s fundamental goal, this practice may be embedded in organisational practices within the sector for their sustainable development. Based on the evidence provided, managers may designate a portion of revenue for CG in order to enhance their financial performance. Specifically, given that the contribution of CG is not only significant to short-term profitability but also future growth prospects, structural CG and the use of in-kind contributions may be suggested as it may also be expected to reduce agency costs (Iatridis 2015).

For investors and analysts, the finding may provide some insights in evaluating their investment portfolio. In particular, as the relationship between CG and FP is inverse U-shaped, investors or analysts may take note that CG contribution of firms can be value-enhancing only if marginal benefits generated is able to offset the marginal costs of these involvements.

While this study provided a novel insight into the CG-FP relationship, it has some limitations. One limitation is that the sample considered only the firms available under the Bloomberg database. Hence, neither small nor medium sized firms are included. Future work may consider revisiting the CG issues of these smaller tourism-related firms. Another possible limitation is that while there are

TABLE 5. Robustness check

<i>Panel A: Financial Performance equation</i>		
Variable	ROA <sub>i,t</sub>	Tobin's Q <sub>i,t</sub>
ROA <sub>i,t-1</sub>	0.710 (0.000)***	-
ROA <sub>i,t-2</sub>	-0.092 (0.268)	-
Tobin's Q <sub>i,t-1</sub>	-	0.564 (0.000)***
Tobin's Q <sub>i,t-2</sub>	-	0.102 (0.381)
CG <sub>i,t</sub>	2.362 (0.358)	0.429 (0.226)
CG <sub>i,t-1</sub>	2.325 (0.070)*	0.600 (0.032)**
CG <sub>i,t-2</sub>	1.272 (0.223)	-0.203 (0.254)
CG <sup>2</sup> <sub>i,t</sub>	-0.746 (0.346)	-0.166 (0.136)
CG <sup>2</sup> <sub>i,t-1</sub>	-0.876 (0.020)**	-0.232 (0.027)**
CG <sup>2</sup> <sub>i,t-2</sub>	-0.470 (0.168)	-0.006 (0.879)
Constant	6.233 (0.025)**	1.349 (0.001)***
Controls	Included	Included
Year dummies	Included	Included
Lags of CG = 0	3.190 (0.050)**	2.620 (0.083)*
Sum of Lags CG= 0	6.370 (0.015)**	2.670 (0.079)*
Lags of CG <sup>2</sup> = 0	3.240 (0.048)***	4.340 (0.042)**
Sum of Lags CG <sup>2</sup> = 0	5.930 (0.019)**	5.140 (0.028)**
# instruments	42	41
# groups	51	51
# observations	309	309
AR(2) (p-value)	0.249	0.909
Sargan test (p-value)	0.827	0.964
Diff-in-Hansen test (p-value)	0.346	0.141
<i>Panel B Corporate Giving equation</i>		
Variable	CG <sub>i,t</sub>	CG <sub>i,t</sub>
CG <sub>i,t-1</sub>	0.439 (0.000)***	0.494 (0.000)***
CG <sub>i,t-2</sub>	0.207 (0.002)***	0.205 (0.000)***
ROA <sub>i,t</sub>	0.004 (0.145)	-
ROA <sub>i,t-1</sub>	-0.008 (0.099)*	-
ROA <sub>i,t-2</sub>	-0.003 (0.364)	-
Tobin's Q <sub>i,t</sub>	-	0.125 (0.079)*
Tobin's Q <sub>i,t-1</sub>	-	-0.139 (0.010)***
Tobin's Q <sub>i,t-2</sub>	-	0.007 (0.782)
Constant	-0.031 (0.532)	0.103 (0.221)
Controls	Included	Included
Year dummies	Included	Included
Lags of ROA = 0	2.890 (0.065)*	-
Sum of Lags ROA = 0	5.550 (0.022)**	-
Lags of Tobin's Q = 0	-	3.760 (0.030)**
Sum of Lags Tobin's Q = 0	-	7.040 (0.011)**
# instruments	38	39
# groups	51	51
# observations	353	353
AR(2) (p-value)	0.347	0.600
Sargan test (p-value)	0.143	0.206
Diff-in-Hansen test (p-value)	0.995	0.305

Note: As per Table 3.

different components of CSR, this study addresses only one aspect of the CSR activities, which is corporate giving. When CSR issues are concerned, different dimensions or tools may be used, such as ethical, corporate, social and environmental dimensions. These dimensions and their impacts on FP are worth studied in the future study.

Finally, due to the data constraints, the bi-directional causal relationship provided in this study is limited to short lag period. Future work may consider not only short-run but also long-run causality among these variables when a larger sample size becomes available.



ENDNOTES

- <sup>1</sup> South Asia refers to Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka, and Afghanistan. This study considers only four countries (Bangladesh, India, Pakistan and Sri Lanka) as the published data from Bhutan, the Maldives, Nepal and Afghanistan are not available.
- <sup>2</sup> For a quadratic model of  $y_i = \beta_1 + \beta_2 x + \beta_3 x^2$ , the quadratic or turning point is obtained by solving  $\frac{dy}{dx} = \beta_2 + 2\beta_3 X = 0$ ; hence  $X = -\frac{\beta_2}{2\beta_3}$

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