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THE ROLE OF CORPORATE REPUTATION ON TRAVEL AND LEISURE COMPANIES PERFORMANCE IN MALAYSIA

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ABSTRACT

Recently in Malaysia studying a relationship between corporate reputation as a category of corporate social responsibility (CSR) and financial performance has become an important topic, despite the fact that Malaysia is still in its infancy. Presence of few literatures about interaction between corporate reputation and firm performance caused encouragement to develop a model to investigate existence of any relationship between corporate reputation and firm value. The moderating role of age and size of companies leading towards firm performance will also be considered. 30 travel and leisure public listed companies in Bursa Malaysia will be selected to test a model from 2000 to 2005. This model will be implemented through structured equation model (SEM). The developed model can then be recommended to other companies.

KEYWORDS

CSR, Financial Performance, Reputation, SEM, Travel and Leisure.

INTRODUCTION

Companies try to gain more profit and value to their shareholders by probing into corporate reputation and increasing corporate image. Although there are different definitions for Corporate reputation, it is described as a category of corporate social responsibility which is beneficial activities in economic, ethical, legal, and discretionary parts that lead to create value and meet expectations of society (Grunig, 1979). An investigation on corporate social performance on internal stakeholders argued it is necessary for each firm to protect and increase its reputation and image (Corley, Cochran, & Comstock, 2001). Bursa Malaysia and the Malaysian Institute of Accountants published guidance and benchmark about CSR activities in four sections: "Marketplace", "Environment", "Workplace", and "Community" (Malaysia, 2006). Corporate reputation is described as market place and workplace determinants of corporate social responsibility. Having corporate reputation prepares accessibility to competitive advantages and profitability easier and sooner (Hall, 1993). Researching on corporate reputation of corporate social responsibility and financial performance has been an interesting topic especially in developed countries. Recently Malaysia as an emerging market has involved more in corporate social activities and corporate reputations to be powerful competitor in a competition environment. The study in Malaysia for telecommunication industry about corporate reputation and competitive advantage indicates that corporate reputation is as important as corporate social responsibility and they are related to each other which firms should be considered to have competitive advantage (Awang, 2010). However, there are few researches on the corporate reputation as a corporate social responsibility relationship with firm performance in Malaysia. The correlation between corporate social responsibility and firm financial performance in developed countries is well-established and has been considered in the previous researches (Vance, 1975; Simpson & Kohers, 2002; McGuire, Sundgren, & Schneeweis, 1988). The big difference in implementing corporate social responsibility in different countries is difference in culture and ethical reasoning (Whitcomb, Erdener, & Li, 1998). Some service industry sectors such as hotel and banks are more related to corporate reputation which should care more to absorb customers (Yoon, Guffey, & Kijewski, 1993). Travel and leisure companies which pay more attention to their reputation could be more successful in competitive market and gain more profits.

PROBLEM STATEMENT AND RESEARCH GAP

Corporate reputation as determinant of corporate social responsibility is in elementary stages of implementing in Malaysian companies. Knowing the effects of corporate reputation on performance of travel and leisure companies helps organizations in Malaysia especially in service sectors of industry to increase their information about this area whether apply in their organizations. Although it is a crucial examination, because of lack of knowledge in this area, this study aims to perform an investigation for understanding any associations of corporate reputation and financial performance which help both companies and investors.

RESEARCH QUESTIONS

- What is the relationship between product, service, and employee with financial performance?
- Which of the dimension of corporate reputation has the most effect on financial performance?
- How does age and size of firms influence moderate the relationship between corporate reputation and firm performance?

OBJECTIVES OF THE RESEARCH

- To find out any relationship between product, service, and employee with financial performance.
- To know the most effective dimension of corporate reputation in financial performance.
- To investigate how age and size of firms influence moderate the relationship between corporate reputation and financial performance.

LITERATURE REVIEW

RELATIONSHIP BETWEEN CORPORATE REPUTATION AND FIRM PERFORMANCE

There are different theories and methodologies which reflect on corporate reputation, however, few studies reported from previous researchers on relationship between corporate reputation and firm performance. Herremans, Akathaporn, & McInnes (1993) studied a link between corporate reputation and economic performance for manufacturing U.S. companies from 1982 to 1987. The results showed there was a good and positive association between corporate reputation and stock market return.

McGuire, Schneeweis, & Branch (1990) investigated a relationship between corporate social responsibility and firm performance. The authors used Fortune magazine survey as a reputation index for corporate social responsibility, and found reputation an important factor to gain financial profits.

Schnietz & Epstein (2005) analyzed influence of reputation on financial value during a crisis. The authors followed this research with reputation as a measure of corporate and stock market return as a market-based measure of financial performance in 1999 for 426 firms selected from Fortune 500 of U S firms. They concluded a positive relationship.

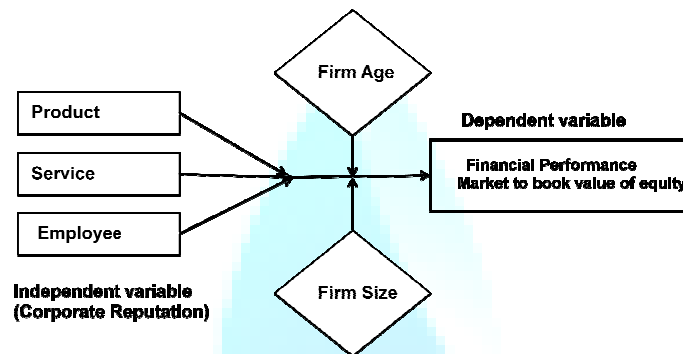
Fombrun & Shanley (1990) examined corporate reputation and corporate strategy. The authors applied their research on 292 US firms. The results showed there was a positive interaction between reputation and financial performance.

Kotha, Rajgopal, & Rindova (2001) investigated association among three types of reputation as marketing investment, reputation borrowing and media exposure with financial performance in internet firms. They concluded reputation was a crucial factor to reach financial achievements.

METHODOLOGY AND RESEARCH DESIGN

This study uses previous models and develops a new model. Figure 1 shows proposed research model for this research. Product, service and employee are defined for corporate reputation as a determinant of corporate social responsibility for independent variables. Financial performance is dependent variables which will be used market to book value of equity. The moderating role of age and size of companies which influence the interaction between corporate reputation and firm performance will be also studies.

FIGURE 1: PROPOSED RESEARCH MODEL



HYPOTHESES DEVELOPMENT

- HO1: There is a relationship between product and financial performance.
 HA1: There is no relationship between product and financial performance.
 HO2: There is a relationship between service and financial performance.
 HA2: There is no relationship between service and financial performance.
 HO3: There is a relationship between employee and financial performance.
 HA3: There is no relationship between employee and financial performance.
 HO4: Age of company moderates the path relation between corporate reputation and firm performance.
 HO5: Size of company moderates the path relation between corporate reputation and firm performance.

SAMPLE DESIGN

This study will be applied for 30 travel and leisure public listed companies in Bursa Malaysia. This study will be a cross-sectional study. This study will be using systematic random sampling for all 30 travel and leisure from 2000-2005.

DATA COLLECTION

Both secondary and primary data will be used in this research. Secondary data will be applied to gather data of firm performance, size and age of companies through annual reports of companies. A questionnaire based survey will be used to get information of corporate reputation in all travel and leisure organizations, also some open-end questions will be applied in the questionnaire to improve ways of implementing corporate reputation as a determinant of corporate social responsibility in Malaysian companies. The analysis of data will result in I) summary statistics for scores and variables to prepare a general overview of independent, dependent and control variables in terms of number of cases, Median, standard deviation and average values, II) correlations between variables and scores, to draw a conclusion about the relationship between variables.

DISCUSSION OF FINDINGS

All data collected from annual reports and questionnaire will be tested by using structural equation model (SEM) to test hypotheses in a link of corporate reputation and firm profitability. Two necessary tests which will be needed in this study are descriptive statistics and regression analysis (Waddock & Graves, 1997). Any additional analysis required to test the model will be implemented in appropriate time and suitable levels.

CONCLUSION

Applying corporate reputation in companies has benefits in terms of financial performance which Malaysia has tried to approach it, but still is lagging behind many developed countries. However, it has been improved in this area remarkably since last years. Malaysian companies, investors and stakeholders suffer from lack of knowledge in this area. Hence this research will try to fill the gap by studying association between corporate reputation and firms profitability in travel and leisure industry of public listed companies in Bursa Malaysia, moreover will develop a model for further studies. This investigation has benefits for government elements, companies, stakeholders and other sectors who may deal with this issue.

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