

# P1 Inder

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**Submission date:** 31-May-2022 09:13PM (UTC+0700)

**Submission ID:** 1847835404

**File name:** authorFinalVersion.docx (75.76K)

**Word count:** 8296

**Character count:** 47896

## Corporate Social Responsibility and Internationalisation in Mitigating Risk

### Abstract

This study aims to recognise the effect of corporate social responsibility (CSR) and internationalisation on the idiosyncratic risk of the tourism and hospitality industry in ASEAN. The generalised method of moments GMM two-step model examined the research framework from 405 firm-years applied from 81 companies in Indonesia, Malaysia, Thailand, and Singapore, from 2015 until 2019. The results prove that CSR activities and internationalisation strategy can mitigate idiosyncratic risk. In addition, the demand for social responsibility in the global market is undoubtedly higher than in the local market. Therefore, adequate CSR disclosure is required to meet investor satisfaction in international markets. This study contributes to social responsibility studies by investigating the effect of CSR activities on idiosyncratic risk in ASEAN countries. Analysis of the interaction between internationalisation and CSR leverages the values of this study.

**Keywords** – Corporate social responsibility; idiosyncratic risk; internationalisation; ASEAN; tourism and hospitality

### 1. Introduction

Corporate Social Responsibility (CSR) is recommended to be the main vehicle for tourism and hospitality companies in order to run ethically, where companies hold responsibility for the environment and the place where their businesses run (Fatma et al., 2016; Volgger & Huang, 2019). The Tourism Minister's Summit in London, 2007, concluded that climate change is one of the most considerable challenges to the sustainability of the tourism and hospitality industry, especially in countries that are projected to have high tourism growth such as ASEAN (Scott & Gössling, 2018). On the other side, the tourism and hospitality industries also contribute to social and environmental problems. The borderless world encourages tourists to travel more, domestically and internationally and thereby increases the emissions resulting from energy-intensive transportation (Scott & Gössling, 2018). Hotels and other related companies in the tourism sector contributed to at least 1% of global emissions and continuously rise along with the higher demand for tourism products (Latif et al., 2020). The International Tourism Partnership (ITP), in response to the Paris Agreement in 2015, sounded the Sustainable

Development Goals (SDGs) to navigate the sustainable growth, environmental protection, employability program, good corporate governance in managing human rights and labour supply chain during hotel construction (Latif et al., 2020; Scott & Gössling, 2018).

Moreover, the existence of CSR can reduce hotel operating costs (Fatma et al., 2016; Han et al., 2009) and becomes a benchmark for achieving continuous development (Fatma et al., 2016). The construction of a drainage system to limit the pollution resulting from resorts or hotels can be one example of CSR practices. Besides, companies can assess their CSR practices according to Environmental Impact Assessment (EIA) body that evaluates environmental impacts from developing projects while considering the socioeconomic, cultural, and human rights impacts. Moreover, the investment in CSR activities improves brand image (Randle et al., 2019; Lee et al., 2020), buying intensity (Diehl et al., 2016; Kim, 2017), customer satisfaction (Lee et al., 2020), and customer loyalty (Chung et al., 2015; Latif et al., 2020; Tarigan et al., 2021). Those positive effects of CSR escalate corporate reputation (Randle et al., 2019; Latif et al., 2020; Tarigan et al., 2021), especially in a global competition that demands public trust for better firm quality and positioning. Besides, CSR activities also lead to increased employee productivity and financial performance (Devie et al., 2018; Hatane et al., 2020). Excellent financial performance is expected to lower the risks attached to a company, including the idiosyncratic risk.

The fast-changing business environment due to globalization has led to fierce competition and high pressure on the tourism and hospitality industries (Brandão et al., 2020). However, globalization is also a key for companies to gain opportunities in the global market (Song et al., 2017; Brandão et al., 2020). The tight competition makes the companies put more attention to their business process and the needs of global stakeholders. Internationalisation is an effort of winning a global competition. Internationalisation acts in the tourism and hospitality industry are, for example, opening new branches in other countries and having a foreign CEO. Based on previous studies, internationalisation is proven to influence idiosyncratic risk in which there are potential risk effects from overseas operations. Since idiosyncratic risk is an inherent risk that affects the equilibrium of asset or share values, assuming portfolio diversification is not done, the risk that must be considered is firm's total risk (Levy, 1978; Merton, 1987; Park et al.,

2017). Additionally, internationalisation involving various markets can reduce firm risk caused by changing interest rates, wages, raw material prices from certain countries, and occurring supplies and demands (Jung et al., 2018; Kim et al., 1993). Internationalisation activities demonstrate the ability of a company in entering a tight competition. Therefore, social responsibility actions help raise firm value to become part of firm strategy in competition (Kim et al., 2018).

Global competition pushes companies, including the tourism and hospitality industry, to spread their business practices to other nations. However, the emergence of the COVID-19 pandemic near the end of 2019 has brought massive changes to this industry. The pandemic leads to economic disturbances across the whole ASEAN region, such as a travelling ban, lockdown, and public quarantine, which cause a decline in tourism flows and reduced trust from customers and businesses (ASEAN, 2020). It is thus necessary to promote and market tourism in order to recover regional tourism in ASEAN.

This study is conducted in four major countries in the ASEAN region from 2015 to 2019: Indonesia, Malaysia, Thailand, and Singapore. The performance in 2020 is not included within the observation period due to data limitations and to avoid bias caused by the pandemic crisis. Nevertheless, the results can be beneficial to prepare ASEAN-4 in facing the after-crisis period of COVID-19. This study inspects the benefit of CSR practices and the effect of internationalisation on unsystematic risk, particularly in the tourism and hospitality industries. Additionally, this study also investigated the interaction of CSR and internationalisation in controlling idiosyncratic risk. This study sampled firms from the tourism and hospitality industry from 2015 to 2019, using ROA (Return on Asset), firm size, liquidity, leverage, and brand diversification as control variables. Moreover, this study is arranged as follows: Section 2 presents the literature and the preparation of a set of hypotheses; section 3 discusses the research methodology; section 4 presents research results. Finally, section 5 concludes the study.

## 2. Literature Review and Hypothesis Development

### CSR and Stakeholder Theory

Stakeholder theory explains the company's steps in creating value for stakeholders, which consist of shareholders and managers and every actor who has an interest in the operations

run by the company (Theodoulidis et al., 2017). This value creation is essential for its internal performance because it gains support from stakeholders. Stakeholder pressure is one of the main reasons for CSR in the tourism and hospitality industry (Franco et al., 2019). Stakeholder theory suggests that companies can build good relationships with stakeholders to ensure that companies are still able to earn revenue and generate profits. Previous research found that CSR is able to have an impact on stakeholder satisfaction, especially internal stakeholders such as employees and external stakeholders such as customers (Theodoulidis et al., 2017; Tarigan et al., 2021). In addition to CSR activities that must be in line with the company's strategy, companies also need to look at stakeholders' preferences regarding CSR activities carried out (Latif et al., 2020). Stakeholder involvement in CSR activities will measure the company's success in achieving competitive advantage (Lee et al., 2020; Latif et al., 2020).

#### **Idiosyncratic Risk:**

The risks that exist in the company are caused by two factors, namely external and internal factors. External factors that affect company profitability can be seen through economic conditions such as inflation, recession, and government policies (Jung et al., 2018). Internal factors explain specific events experienced by the company, such as the company's failure to meet good service quality or research and development costs that are too large (Ozdemir et al., 2020). Internal factors give rise to systematic risk, as opposed to external factors that give rise to unsystematic risk, known as idiosyncratic risk (Jung et al., 2018).

Idiosyncratic risk reflects the specific information on a company, and so is also called a firm-specific risk (Goyal & Santa-Clara, 2003). Several factors influence the changes of firm-specific risks, such as seasonal demands and supplies, periodic earnings disclosure, or competitor strategy, that may affect firm profitability (Fu, 2008). Idiosyncratic risk consists of operational and investment strategies, financial policies, and exclusive but controllable firm culture (Hatane et al., 2019). Idiosyncratic risk is an unsystematic risk that can be diversified and unrelated to the market (Hatane et al., 2019; Mathew et al., 2018). Investors could reduce idiosyncratic risk through portfolio diversification (Bartram et al., 2011).

### Corporate Social Responsibility

Corporate social responsibility (CSR) is an action taken by companies to fulfil their corporate responsibility towards society. CSR involvement increases corporate ability to work better both in the short and long term (Carini et al., 2017; Cheng et al., 2014; Yu & Choi, 2014). Corporate responsibility is demonstrated through voluntary actions, whether social or environmental, that surpass legal obligations (Su et al., 2014). Involving CSR in a company, especially in the hospitality industry, is a significant contributor to a positive consequence, such as a better reputation (Su et al., 2017). A previous study revealed that 80% of the sampled hotels carried out CSR activities (Holcomb et al., 2007). Companies that adopt social responsibility practices also reduce information asymmetry (Su et al., 2014). It is in line with signalling theory, where in order to exhibit quality, a firm signals its concern to society by doing CSR, creating a positive perception for itself (Yim et al., 2019). The existence of CSR supports a good corporate-stakeholder relationship through decreasing firm costs (Brower & Mahajan, 2013; Ozdemir et al., 2020), increasing human resource productivity (Franco et al., 2019), and rocketing customer satisfaction (Latif et al., 2020), thus creating customer loyalty (Kim et al., 2017; Lin et al., 2014). The risk mitigation view recommends that better CSR performance leads to intangible assets. Bouslah et al. (2016) mention that CSR activities can generate moral capital resulting in relational capital for each stakeholder. It can mitigate the firm's risk by increasing the certainty of the firm's future cash flows.

CSR is measured using the KLD index as formulated by Peter Kinder, Steve Lydenberg, and Amy Domini in 1990. The KLD index serves to see and measure corporate social activities from the good and the bad side. The seven components of the KLD index in this study are community, corporate governance, diversity, employee relations, environment, human rights, and products. Community discusses the company's social interest in society. Corporate governance examines how the company values existing diversity, such as gender composition in the board of directors and employees disabled workers. Employee relations studies the relationship between the company and its employees. Environment discusses how the company shows its consideration regarding its surroundings. Human rights indicator analyses customers and employees' rights and

obligations as regulated in legislation. The product covers the quality of products, research and development, and benefit of the products developed by the company.

Following signalling theory, CSR disclosure as vital company information may become an indicator to reduce idiosyncratic risk (Mishra & Modi, 2013; Yoon & Chung, 2018). This study noticed the lack of discussion related to CSR and risks such as idiosyncratic risk. Employing CSR as a company contribution to social life is expected to reduce this risk. Therefore, the hypothesis developed:

H1: CSR has a negative effect on Idiosyncratic Risk.

### **Internationalisation**

Internationalisation is a form of international business operation in different countries in order to widen sales and achieve a more extensive economic scale (Attig et al., 2016; Capar & Kotabe, 2003; Jung et al., 2018; Park & Jang, 2010). The international aspect is important, as the tourism and hospitality industry are dependent on international consumers, and currently, most companies experience an acceleration of global expansion (Jung et al., 2018). Furthermore, internationalisation is also a strategy to attain a competitive advantage in a different region (Andersen, 1993; Nachum & Zaheer, 2005) and create a chance for the company to obtain new resources (Lin, 2012).

International operation encourages a company to secure foreign stakeholders (Khojastehpour & Saleh, 2019), which then becomes a sign to invest, such as by doing Foreign Direct Investment (FDI) (Agnihotri & Bhattacharya, 2016; Buckley et al., 2016). Stakeholders also force the company to pay attention to social issues (Farmaki, 2019; Iyer & Jarvis, 2019). Stakeholder theory states that each stakeholder has a right to know corporate information that will affect their business decision. Consequently, an international operation will be more effective if a company pays attention to current social issues and strives to fulfil each nation's stakeholders' demands (Kang, 2013; Khojastehpour & Saleh, 2019).

A high risk undoubtedly exists in international operations (Westhead, 2008; Zeng et al., 2009); however, it is possible to minimise the risk in different markets by reducing income fluctuations (Khojastehpour & Saleh, 2019; Lin, 2012). It is how internationalisation lowers idiosyncratic risk. Tourism and hospitality are including in the

globalised industries that characterised by level of partnership and knowledge acquisition (Brandão et al., 2019). Internationalisation is a strategy to push the company to broaden the market and become more creative in creating innovation. A diverse business environment can generate a high return with low risk (Jung et al., 2018). Internationalisation can decrease firm risk through benefits gained from each market. A big market is also an indicator that a company can mitigate losses and a release from supply-and-demand fluctuations in a particular country (Kim et al., 1993). Therefore, the hypotheses developed:

H2: Internationalisation negatively affects Idiosyncratic Risk.

Jung et al. (2018) argue that CSR activities effectively manage the relationship with stakeholders to reduce risks. International operation and CSR are strategy tools to minimise the risk in each operating unit, whether domestic or international (Bondy & Starkey, 2014). Many issues related to CSR occur in internationalization, specifically for multinational companies in developing markets, which often harm the companies (Zhang et al., 2021). The main objective of CSR implementation in the emerging markets is that philanthropic activities provide social license for companies to operate and reduce the consequences of being unethical (Vikrant & Namita, 2021). The legitimacy and reputational benefits from the extension of CSR performance in the international market are potentially escalating the company's diversification of business, resulting in the mitigation of firm-specific risk. The crucial role of internationalisation in tourism and hospitality inspires this study to fill literature gaps on the analysis of CSR and idiosyncratic risk. Thus, the hypothesis is:

H3: Internationalisation moderates the effect of CSR on Idiosyncratic Risk.

### **ROA, Firm Size, Leverage, Liquidity, and Brand Diversification on Idiosyncratic Risk**

Return on Assets (ROA) is a basic performance measurement used in some CSR studies (Lee & Jung, 2007) as a means to assess the financial impact of CSR activities (Franco et al., 2019; Kang et al., 2012; Kang et al., 2010; Lee et al., 2018; Lee & Park, 2009; Park & Lee, 2009). ROA is an accounting-based ratio to measure firm profitability in generating profit through current resources (Lee & Jang, 2007). A prior study of idiosyncratic risk on restaurants and hotels found that firm size, financial leverage, and



operating leverage significantly affect idiosyncratic risk (Hsu & Jung, 2008). Liquidity measures a firm's ability to fulfil short-term duties, so high liquidity indicates a reduction of firm risk due to the absence of financial difficulties (Ozdemir et al., 2020). Thus, liquidity is also known as a firm-specific financial factor (Agnihotri & Bhattacharya, 2016; Cheng et al., 2014; Kansal et al., 2014), compared to idiosyncratic risk as a firm-specific risk. Brand diversification is an activity where firms choose to operate in different markets with varying brands; a high number of brands show a diverse number of businesses (Bahadir et al., 2008). Brand diversification may affect idiosyncratic risk, as it is a unique resource for attaining a particular position in the mind of consumers (Ozdemir et al., 2020). Risk reduction through diversification might happen because of growing business size (Amit & Livnat, 1988). Therefore, this study employed ROA, firm size, liquidity, leverage, and brand diversification as control variables.

### 3. Research Method

This study is quantitative, utilising secondary data from annual reports, Bloomberg data bank, and content analysis in KLD Index. This study focuses on the tourism and hospitality industries. The total number of companies in those industries in ASEAN are 263 companies. This study narrows the observation to 4 major countries in ASEAN: Indonesia, Thailand, Malaysia, and Singapore. The four significant countries are chosen as the ASEAN's most active capital markets. Total number of tourism and hospitality companies in those four countries are 153; however, only 81 companies have completed annual reports from 2015 until 2019. Thus, the total number of observed companies is 53% from those 153 companies. The data are taken from 15 Indonesian companies, 14 Thai companies, 33 Malaysian companies, and 19 Singaporean companies. These companies have been listed in each country's national stock exchange, namely Bursa Efek Indonesia (BEI), Stock Exchange Thailand (SET), Malaysia Exchange (MYX), and Singapore Exchange (SGX) from 2015 to 2019. Total companies in the tourism and hospitality industries in ASEAN This study's unit analysis was 405 firm-year observations. The statistic method used is a multiple regression panel. This study employed the following statistics equation:

Model 1:

$$\text{Idio-Risk}_i = \alpha + \beta_1 \text{CSR}_i + \beta_2 \text{Internationalisation}_i + \beta_3 \text{ROA}_i + \beta_4 \text{Firm Size}_i + \beta_5 \text{Liquidity}_i + \beta_6 \text{Leverage}_i + \beta_7 \text{Brand Diversification}_i + \epsilon_i$$

Model 2:

$$\text{Idio-Risk}_i = \alpha + \beta_1 \text{CSR}_i + \beta_2 \text{Internationalisation}_i + \beta_3 \text{CSR} * \text{Internationalisation}_i + \beta_4 \text{ROA}_i + \beta_5 \text{Firm Size}_i + \beta_6 \text{Liquidity}_i + \beta_7 \text{Leverage}_i + \beta_8 \text{Brand Diversification}_i + \epsilon_i$$

Model 3:

$$\text{Idio-Risk}_i = \alpha + \beta_1 \text{Total Strength}_i + \beta_2 \text{Total Concern}_i + \beta_3 \text{Internationalisation}_i + \beta_4 \text{ROA}_i + \beta_5 \text{Firm Size}_i + \beta_6 \text{Liquidity}_i + \beta_7 \text{Leverage}_i + \beta_8 \text{Brand Diversification}_i + \epsilon_i$$

Model 4:

$$\text{Idio-Risk}_i = \alpha + \beta_1 \text{Total Strength}_i + \beta_2 \text{Total Concern}_i + \beta_3 \text{Internationalisation}_i + \beta_4 \text{Strength} * \text{Internationalisation}_i + \beta_5 \text{Concern} * \text{Internationalisation}_i + \beta_6 \text{ROA}_i + \beta_7 \text{Firm Size}_i + \beta_8 \text{Liquidity}_i + \beta_9 \text{Leverage}_i + \beta_{10} \text{Brand Diversification}_i + \epsilon_i$$

**Table I** Variables' Operational Definitions

Variables	Operational Definition	Data Source
Idiosyncratic Risk (Idio-risk)	<ul style="list-style-type: none"> <li>Idiosyncratic risk is measured using stock response modelling, four-factor model (Carhart, 1997) as follows:</li> </ul> $R_{it} - R_{ft} = \alpha + \beta_{MKT} (R_{MKT,t} - R_{ft}) + \beta_{SMB} \text{SMB}_t + \beta_{HML} \text{HML}_t + \beta_{MOM} \text{MOM}_t + \epsilon_{it}$ <p> <math>R_{it}</math> = Return value of firm i daily share price on d day  <math>R_{ft}</math> = Risk free value per country on d day  <math>R_{MKT}</math> = Return value of composite index per country on d day            SMB = Difference in return between small shares profit and large shares profit on d day            HML = Average return of value-weighted portfolio from the highest book value on stock market with the lowest book value on stock market on d day            MOM = Average return of two previous low portfolio on d day  <math>\epsilon_{it}</math> = Residual of firm i on d day  <math>\alpha</math> = Constant  <math>\beta</math> = Coefficient         </p>	Bloomberg and statistical calculation
CSR	<ul style="list-style-type: none"> <li>CSR is measured through social responsibility ratings from KLD Index, namely CSR strength and CSR concern.</li> </ul>	Content analysis from KLD Index

	<ul style="list-style-type: none"> <li>• CSR strength (concern) covers community, corporate governance, diversity, employee relations, environment, human rights, and product.</li> <li>• Each category has a sub-criterion that, when fulfilled, is given a score 1, and 0 if otherwise.</li> <li>• CSR is measured with: Total CSR Strength - Total CSR Concern</li> </ul>	
Internationalisation (INT)	<ul style="list-style-type: none"> <li>• Internationalisation is a dummy variable given a score of 1 if the company has an international operation and 0 if otherwise.</li> <li>• Internationalisation is calculated to determine the potential effects of overseas operations that could affect idiosyncratic risk.</li> </ul>	Annual report
ROA	<ul style="list-style-type: none"> <li>• ROA is a ratio to measure firm profitability to generate profits with existing resources.</li> <li>• ROA is measured by: <math display="block">\frac{\text{Net Income}}{\text{Total Asset}}</math></li> </ul>	Bloomberg
Firm Size (SIZE)	<ul style="list-style-type: none"> <li>• Firm Size is a log of the book value of the firm total asset.</li> <li>• Firm Size is measured by: <math display="block">\text{Log of (Total Asset)}</math></li> </ul>	Bloomberg
Leverage (LEV)	<ul style="list-style-type: none"> <li>• Leverage is a ratio to measure the number of funds provided by the creditors for the firm. <math display="block">\frac{\text{Total Debt}}{\text{Total Equity}}</math></li> </ul>	Bloomberg
Liquidity (LIQ)	<ul style="list-style-type: none"> <li>• Liquidity is a ratio to measure a firm's ability to fulfil its short-term obligations.</li> <li>• Liquidity is measured by: <math display="block">\frac{\text{Current Assets}}{\text{Current Liabilities}}</math></li> </ul>	Bloomberg
Brand Diversification (BDP)	<ul style="list-style-type: none"> <li>• Brand Diversification the number of brands operated by a company.</li> <li>• The number of brands is obtained by reviewing the company's annual reporting, usually in "The Company", "The Business" section, and other sections related to company brands.</li> </ul>	Annual Report

### Panel Data

The analysis method of GMM (Generalised Method of Moments) was utilised in this study to resolve the correlation problem between the dependent variable and existing errors in the GMM estimator (Alhawwat et al., 2015; Odeh et al., 2020). Endogeneity is controlled with GMM approach from dynamic panel analysis (Lin et al., 2018). Some items

need to be tested to ensure the validity and reliability of GMM analysis. First, the Arellano-Bond Test is used to detect any serial correlation. Then, the correct validity and instrument specification are confirmed if the momentous condition is applied. In this case, AR(2) tests the residual to ensure no correlations on the altered errors (Odeh et al., 2020). Hence, this study used AR(2). The p-value of AR(2) should be more than 5%. Sargan test aims to test the whole of instrument validity on over-identification restriction where the p-value is reported, which should be higher than 5%. Finally, Wald Test examines the significant relation between dependent and independent variables.

#### 4. Result and Analysis

##### Sample Description

In the following Table II, each variable is further explained with a justification to the mean value, median value, minimum value, maximum value, and standard deviation per variable.

**Table II** Sample Description

Variable	Mean	Median	Min	Max	Standard Deviation
Idio-Risk	0.136	0.017	0.002	7.354	0.563
CSR	14.299	15	-4	32	8.814
INT	0.519	1	0	1	0.500
ROA	0.025	0.024	-0.776	0.254	0.067
SIZE	12.108	12.496	7.464	18.244	1.594
LKV	0.417	0.292	-1.00007	3.740	0.480
LIQ	2.240	1.425	0.00000208	14.752	2.242
BDF	9.724	7	1	143	16.046

Table II shows the sample description of employed variables. Observation shows that the highest Idio-Risk belongs to Tanco Holdings Berhad in 2019. CSR has an average value of 14.299, meaning some companies have implemented CSR. The minimum CSR is from Syca Ventures Berhad in 2015, with the largest Concern in the corporate governance section. Banyan Tree Holding Ltd carried out the greatest number of CSR in 2019. Through

observation, 51.9% of companies have done international operations. ROA has a mean of 2.5% with the minimum from HB Global Limited in 2015. The biggest SIZE came from PT MNC Land in 2018. The average of LEV shows that 41.7% of companies fund their operations through debts, but the minimum value was by PT Pembangunan Jaya in 2015. Grand Central Enterprises BHD owned the maximum value of LIQ of 14.752 in 2017, and the maximum BDF is from Surway Berhad from 2015 up to 2019.

Table III below shows the result of panel testing for test effect model for each equation model.

**Table III** Autocorrelation and Panel Effect Tests

	Model 1	Model 2	Model 3	Model 4
CSR <sub>it</sub>	1.125	2.318		
Total Strength <sub>it</sub>			1.125	2.327
Total Concern <sub>it</sub>			1.016	1.664
INT <sub>it</sub>	1.142	4.170	1.146	6.043
CSR*INT <sub>it</sub>		5.962		
Strength*INT <sub>it</sub>				6.719
Concern*INT <sub>it</sub>				2.630
ROA <sub>it</sub>	1.088	1.110	1.088	1.111
SIZE <sub>it</sub>	1.053	1.066	1.053	1.074
LIQ <sub>it</sub>	1.116	1.138	1.117	1.168
LEV <sub>it</sub>	1.119	1.119	1.120	1.209
BDF <sub>it</sub>	1.041	1.049	1.042	1.078
Panel Effect Test				
Fixed effects estimator	F(80, 317) = 26.3553 with p-value 1.49342e-102	F(80, 316) = 26.4197 with p-value 1.30328e-104	F(80, 316) = 26.5253 with p-value 7.60613e-102	F(80, 314) = 26.3897 with p-value 4.07542e-101

Brunsch-Pagan test	LM = 555.236 with p-value = prob(chi-square(1) > 555.236) = 9.1386e-123	LM = 555.474 with p-value = prob(chi-square(1) > 555.474) = 8.11486e-123	LM = 552.15 with p-value = prob(chi-square(1) > 552.15) = 3.87982e-122	LM = 553.225 with p-value = prob(chi-square(1) > 553.225) = 2.30267e-122
Hausman test statistic	H = 6.2963 with p-value = prob(chi-square(7) > 6.2963) = 0.505609	H = 5.11943 with p-value = prob(chi-square(8) > 5.11943) = 0.744738	H = 6.80403 with p-value = prob(chi-square(8) > 6.80403) = 0.57916	H = 7.4404 with p-value = prob(chi-square(10) > 7.4404) = 0.682964
Result of Panel Test Effect	Random Effect Model	Random Effect Model	Random Effect Model	Random Effect Model

Table III shows that models 1, 2, 3, and 4 do not have multicollinearity problems as the Variance Inflation Factor (VIF) of each variable is below 10. Multicollinearity test is used to examine the correlation in-between each variable. The Hausman test result indicates that the four models are more fitting for the random effect model.

#### Data Panel Estimation Model

The first regression model utilised in this study is the Random Effect Model (REM). The result of data processing of the REM model is as follows:

Table IV Random Effect Model

	Model 1	Model 2	Model 3	Model 4
Cont	0.5685 (0.0011)***	0.6575 (<0.0001)***	0.5438 (0.0004)***	0.5579 (0.0027)***
CSR <sub>it</sub>	-0.0016 (0.6784)	-0.0081 (0.2027)		
Total Strength <sub>it</sub>			-0.0008 (0.8498)	-0.00405 (0.5810)
Total Concern <sub>it</sub>			0.0117 (0.5573)	0.03017 (0.1755)
INT <sub>it</sub>	-0.0290 (0.7723)	-0.1953 (0.2311)	-0.0287 (0.7743)	-0.0610 (0.7499)
CSR <sup>2</sup> INT <sub>it</sub>		0.0098 (0.1968)		

Strength*INT <sub>it</sub>				0.00510 (0.5497)
Concern*INT <sub>it</sub>				-0.0568 (0.1543)
ROA <sub>it</sub>	-0.0834 (0.7312)	-0.0753 (0.7561)	-0.0850 (0.7264)	-0.0729 (0.7636)
SIZE <sub>it</sub>	-0.0295 (0.0000)***	-0.0292 (0.0000)***	-0.0296 (0.0000)***	-0.0296 (0.0000)***
LIQ <sub>it</sub>	-0.0053 (0.8934)	-0.0052 (0.8984)	-0.00507 (0.6095)	-0.00472 (0.6336)
LEV <sub>it</sub>	-0.0164 (0.7065)	-0.0170 (0.6970)	-0.0158 (0.7171)	-0.0127 (0.7703)
BDF <sub>it</sub>	-0.0016 (0.6350)	-0.0014 (0.6764)	-0.00165 (0.6343)	-0.00126 (0.7190)
Asymptotic test statistic (F-test)	Chi-square(7) = 13.1762 with p-value = 0.0679309	Chi-square(8) = 14.637 With p-value = 0.0618512	Chi-square(8) = 13.4175 With p-value = 0.0982698	Chi-square(10) = 16.3809 With p-value = 0.0892343

Note: \*\*\* sig on 1%; \*\* sig on 5%; \* sig on 10%

Based on the above table, the random effect model proves to be inappropriate for this study, since the p-value of the asymptotic test statistic is larger than alpha 5%. To resolve the problem with the random effect model, this study used GMM as the solution for correlation problems and errors, known as endogeneity problems (Lin et al., 2018). The GMM method explains the relationship problem between previous and current dependent variables (Albawwat et al., 2015). GMM is used to assess the correlation problem between dependent variable and occurring errors (Oh & Park, 2015). The data processing result of the GMM model is shown in Table V.

**Table V** Generalised Method of Moments (GMM)

	Model 1	Model 2	Model 3	Model 4
Idio-Risk( $\epsilon_{it}$ )	0.9520 (<0.0001)***	0.9454 (<0.0001)***	0.9528 (<0.0001)***	0.9444 (<0.0001)***
Const	0.1362 (0.0011)***	0.1795 (<0.0001)***	0.1435 (0.0010)***	0.1793 (0.0001)***
CSR <sub>it</sub>	-0.0016	-0.0050		

	(0.0079) ***	(<0.0001)***		
Total Strength <sub>it</sub>			-0.0017 (0.0066)***	-0.004970 (<0.0001)***
Total Concern <sub>it</sub>			-0.0025 (0.6154)	0.004015 (0.5438)
INT <sub>it</sub>	-0.00591 (0.6871)	-0.0040 (0.0002)***	-0.0065 (0.6598)	-0.08197 (0.0090)***
CSR*INT <sub>it</sub>		0.0056 (0.0002)***		
Strength*INT <sub>it</sub>				0.005479 (0.0002)***
Concern*INT <sub>it</sub>				-0.01559 (0.1537)
RGA <sub>it</sub>	-0.2633 (0.0398)*	-0.2057 (0.1314)	-0.2641 (0.0990)*	-0.2029 (0.1358)
SIZE <sub>it</sub>	-0.006025 (0.0299)**	-0.0055 (0.0507)*	-0.0060 (0.0309)**	-0.005432 (0.0553)*
LIQ <sub>it</sub>	-0.00205 (0.4385)	-0.0033 (0.2712)	-0.0022 (0.4067)	-0.003235 (0.2795)
LEV <sub>it</sub>	-0.01572 (0.2935)	-0.0170 (0.2770)	-0.0165 (0.2660)	-0.01579 (0.3153)
BER <sub>it</sub>	-0.0001689 (0.6349)	-2.841115e-05 (0.9793)	-0.0002 (0.6629)	2.46650e-05 (0.9450)

Note: \*\*\* sig on 1%; \*\* sig on 5%; \* sig on 10%

The above Table V demonstrates that CSR performance is consistently significant in lowering Idio-Risk, so **H1 is accepted**. Next, the INT in model 2 is significantly negative on Idio-Risk, showing the role of international operation in decreasing risk, so **H2 is accepted**. In the case of INT moderating the effect of CSR on Idio-Risk in model 2, it is found that the moderating relationship has a positive significant association, thus **H3 is accepted**.

The net performance of CSR measured by Total Strength minus Total Concern. Table V shows that Total Strength, in model 3 and model 4, is able to reduce the Idio-Risk. It indicates that firms that disclose their strength of social responsibility activities gain a significant impact on lowering their idiosyncratic risk. On the other hand, total concern on



CSR disclosures has no significant impact on Idio-Risk. Only ROA and SIZE, as the control variables, that impact in lowering the risk.

The result of validity and reliability values of each equation model is presented in Table VI below.

**Table VI** Validity and Reliability Tests

Tests	Model 1		Model 2		Model 3		Model 4	
	<i>t</i>	<i>p-value</i>	<i>t</i>	<i>p-value</i>	<i>Z</i>	<i>p-value</i>	<i>Z</i>	<i>p-value</i>
AR (2)	-1.0055	0.3147	-1.0072	0.3129	-1.0054	0.3147	-1.0064	0.3142
Sargan Test (Over-identification test)	Chi-square (8) = 14.8435	0.0623	Chi-square (8) = 13.6829	0.0904	Chi-square (8) = 14.8472	0.0622	Chi-square (8) = 14.1039	0.0791
Wald Test (joint test)	Chi-square (8) = 256632	0.0000	Chi-square (9) = 268786	0.0000	Chi-square (9) = 270435	0.0000	Chi-square (11) = 335902	0.0000
Sum squared residual	20.4735		20.8306		20.4593		20.5599	
S.E. of regression	0.2549		0.2557		0.2553		0.2567	

Through the Arellano-Bond test, AR (2) is fit for hypothesis testing since the *p-value* of each model is larger than 10% and is without serial correlation (autocorrelation) between residuals. Furthermore, the Sargan test reveals that the limit of over-identification is valid, meaning there is no over-identifying. Finally, through Wald test, the obtained result is that there are inter-variable relations in each model.

## 5. Discussion

### Hypotheses Analysis

The acceptance of H1 indicates that through CSR, companies are capable of fulfilling stakeholders' wishes on social issues (Farmak, 2019; Iyer & Jarvis, 2019), leading to lowered idiosyncratic risk (Mishra & Modi, 2013; Ozdemir et al., 2020; Yoon & Chung,

2018). This result also supports signalling theory, in which firms show their concern through CSR to gain positive perception (Yim et al., 2019).

The confirmation of H2 demonstrates the existence of internationalisation as the strategy to expand the firm's diversification is favourable to managing the company's risk and thus leads to high returns (Jung et al., 2018), in which encourages investors to fund companies. This result follows the stakeholder theory, where the company pays attention to stakeholders' interests (Kang, 2013; Khojastehpour & Saleh, 2019). It is also in line with a previous study, which stated that idiosyncratic risk would become lower in companies with an international operation (Ozdemir et al., 2020).

Finally, the positive effect of the interaction between CSR and internationalisation towards idiosyncratic risk is in contrast with the statement that internationalisation and CSR can lower risks (Bondy & Starkey, 2014). The acceptance of H3 reveals that the result of this study is supported by Zhang et al. (2021) who argued that gaining legitimacy from international stakeholders is the primary intention for multinational companies to engage in more CSR. The result from this study contributes to the academic discussion regarding internationalisation of companies in emerging market. The limited knowledge of companies in the tourism and hospitality industry about the extent to which CSR disclosures are required by local governments will affect their application of CSR in the international market (Vikrant & Namita, 2021).

### **Managerial Implications**

The relationships between CSR and internationalisation with idiosyncratic risk on firms in ASEAN-4 within the tourism and hospitality industry are negatives, but only CSR is significantly associated with idiosyncratic risk. It means higher CSR performance and the company's existence in the international market can mitigate idiosyncratic risk. Table VII demonstrates that CSR performance is improving while internationalisation is increasing as the open market in ASEAN. Implementing CSR is a strategy to attain a better positioning globally. Likewise, internationalisation is vital to widen the economic scale for tourism and hospitality industry companies. Diversifying business units to international markets would certainly increase business risk, but the risk is comparable with the return gained. Through internationalisation, a company would achieve a competitive advantage

in a different region and earn the attention of foreign stakeholders, leading to mitigated idiosyncratic risk, as shown in Table VIII. Further, although business risk can be controlled with good CSR performance, its idiosyncratic risk will increase if the company has a high-level CSR along with internationalisation.

**Table VII** Mean of Annual Idio-Risk, CSR, and INT in ASEAN-4

Year/ Country	Idio-Risk					CSR					INT				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Indonesia	0.022	0.024	0.024	0.046	0.054	16.600	17.200	18.200	19.733	21.267	0.200	0.267	0.267	0.267	0.333
Thailand	0.012	0.014	0.012	0.014	0.013	19.286	19.214	18.286	19.857	20.571	0.429	0.429	0.429	0.429	0.429
Malaysia	0.195	0.280	0.244	0.303	0.466	8.939	8.568	8.147	8.000	8.000	0.394	0.412	0.412	0.394	0.412
Singapore	0.018	0.019	0.016	0.019	0.020	17.474	16.300	18.263	20.000	18.947	1.000	1.000	1.000	1.000	1.000

**Table VIII** Mean Difference

	Non INT Idio-Risk	INT Idio-Risk	Non INT CSR	INT CSR
Mean	0.216	0.063	12.159	16.286
Observations	195	210	195	210
t-Stat mean difference	2.335		-4.832	
P-value mean difference	0.003		0.000	

Internationalisation reduces the ability of CSR in lowering risk. This means a firm's business risk is greater when it has a higher level of CSR while also expanding internationally. Each country has different CSR practices and standard quality levels. The more developed a country is, the greater the CSR practice demanded of a company. It explains the positive interaction between CSR and internationalisation on idiosyncratic risk. This positive interaction does not mean a firm must reduce its CSR activity and reporting disclosure. Instead, it shows that international market stakeholders have higher CSR demands and concerns than domestic market stakeholders. As seen in Table VIII, firms with the international market have higher CSR performance instead.

This study demonstrates to investors the roles of CSR and firm internationalisation to lower idiosyncratic risk. Investors may use this information to invest in tourism and hospitality companies. The existence of CSR does add value to investors and other stakeholders such as society since the firm will not pay attention only to the interest of a single stakeholder. Therefore, firms need to utilise CSR to become a strategy that helps gain support from stakeholders.

## 6. Conclusion

This study inspected the role of CSR and internationalisation on idiosyncratic risk. The additional value of this study is providing the interaction of internationalisation on CSR, which is expected to mitigate the idiosyncratic risk. The data sample was obtained through annual reports and Bloomberg on tourism and hospitality industry from 2015 to 2019 in ASEAN-4 companies. This study contributes to the discussion of empirical testing related to stakeholder theory on CSR implementation. The results of this study imply that the different interests of stakeholders in the local market with the international market influence the role of the internationalization strategy in moderating CSR associations on company risk. The results indicate that CSR can reduce idiosyncratic risk and internationalisation also succeeded in mitigating the risk. The implementation of CSR at the international level is essential for multinational companies. However, when internationalisation moderates the effect of CSR on idiosyncratic risk, it increases idiosyncratic risk. It can be due to the higher demands of CSR activities and disclosures in the international market. Therefore, management should optimise CSR activities, as CSR yields a positive stakeholder perception. Internationalisation is one of the effective strategies for companies in reducing idiosyncratic risk. Most of the companies in ASEAN-4 seem to focus on the short-term goal of CSR when entering the international market, which is simply to gain legitimacy from stakeholders. This may be because many companies in the tourism and hospitality industry still focus on CSR at the philanthropic level and compliance with local government regulations. The lack of knowledge about CSR applications at a higher-level result in the minimal use of CSR in managing company risk. Therefore, when the company has decided to enter the international market, the company needs to pay attention to the needs of foreign stakeholders related to social responsibility.

activities. The demand for social responsibility in the international market is undoubtedly higher than in the domestic market. Therefore, adequate CSR disclosure is needed to meet investor satisfaction in global markets.

#### **Solution, Recommendation, and Limitation**

The information discussed in this study can give insight for management that CSR practices and internationalisation may reduce the idiosyncratic risk. The CSR practices complete the internationalisation action that expands the company's market. Hence, the company should align with firm conditions when reducing idiosyncratic risk. The information discussed in this study can give insight to management that CSR practices and internationalisation may reduce the idiosyncratic risk. One example is Banyan Tree Holding Ltd which implements internationalisation and carries out CSR activities to expand its economies of scale. Banyan Tree Holding Ltd has the highest CSR performance in the observation of this study. The results showed that Banyan Tree Holding Ltd has the highest CSR, so it was awarded the Best CSR Hotel Group in 2018 by China Daily My Choice Hotel Awards. Although the company operates in Singapore, it has successfully earned awards from abroad, which means that its reputation in the international community is beyond doubt. It reflects the company's competitive strategy to attract the attention of stakeholders. CSR activities known well from this company are school funding for more than US\$100,000, reduction of energy use per occupied room in 43 properties, and food experts from 31 hotels who make menus based on local ingredients and tradition. The reputation may benefit the company by enhancing its legitimation from the public. Regardless of the given analysis and discussion, this study is limited to the tourism and hospitality industry in the ASEAN-4. Thus, the findings of this study must be thought over before being applied in different industries and regions. The CSR variable measurement method continues to develop, and future studies may involve the other CSR measurement methods relevant to the study's aims. Future studies can extend the framework in this study as the business environment is volatile.

#### **Appendix A**

##### **List of Abbreviations**

<b>Abbreviation</b>	<b>Explanation</b>
AR	Arellano-Bond

ASEAN	Association of Southeast Asian Nations
BDF	Brand Diversification
CSR	Corporate Social Responsibility
COVID-19	Corona Virus Disease 2019
Idio-Risk	Idiosyncratic Risk
INT	Internationalisation
KLD	Kinder, Lydenberg and Domini
LEV	Leverage
LIQ	Liquidity
SIZE	Firm Size
ROA	Return on Assets

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