

Corporate Sustainability and Financial Performance of Tourism Firms in Tanzania: The Mediating Role of Firm Capabilities

Said Juma Suluo¹ and Wineaster Anderson²

Abstract

This study examines the mediating role of firms' capabilities on the effect of sustainability initiatives on financial performance of tourism firms in Tanzania. Data was collected using a questionnaire administered to managers of tour operators and accommodation firms operating in Tanzania and structural equation modelling was used to analyse the structural model. The results show that strategic proactivity capability mediates the effect of corporate sustainability initiatives (community, economy, and eco-efficiency) and firm financial performance while the mediation effect of collaboration capability is not supported. The results mean corporate sustainability initiatives with immediate benefits to the local communities enhances firms' financial performance with or without the development of strategic proactivity capability. However, corporate sustainability initiatives with little immediate benefits to local communities may only enhance firms' financial performance when strategic proactivity capability is developed. The results suggest that firms need to prioritize corporate sustainability initiatives with immediate benefits to the external community; while developing and applying a strategic proactive stance for implementation of corporate sustainability initiatives with little immediate benefits to the external community.

Key Words - Corporate Sustainability, Financial Performance, Firm Capabilities, Tourism, Tanzania, Sub Saharan Africa

Introduction

Business organizations are increasingly encouraged to engage in corporate sustainability due to its potential contribution to the sustainable development of societies (Whiteman et al., 2013). Corporate sustainability refers to firms' commitments to enhancing the social and environmental wellbeing of their societies (Wilson, 2003). However, there are claims that investment in corporate sustainability is expensive and inconsistent with firms' profit maximization objectives (Friedman, 1970; Grewatsch & Kleindienst, 2017; Jensen, 2002; McWilliams & Siegel, 2001). Thus, for several decades scholars have debated on the existence of business case for corporate sustainability without reaching a conclusion (Grewatsch & Kleindienst, 2017; Margolis et al., 2007; Orlitzky et al., 2003; Van Beurden & Gössling, 2008). Research on the effect of corporate sustainability on financial performance in the tourism industry has received little focus with mixed results (Rhou & Singal, 2020; Rhou et al., 2016). Scholars argue that the mixed results exist because a direct effect of corporate sustainability on financial performance rarely occurs (Grewatsch & Kleindienst,

¹University of Dar es Salaam - Tanzania
Email: said.suluo@gmail.com

²University of Dar es Salaam - Tanzania

2017; Margolis et al., 2007; Orlitzky et al., 2003; Van Beurden & Gössling, 2008). Margolis et al. (2007), for instance, maintained that the relationship between corporate sustainability and firm performance is an indirect one, involving either moderating or mediating variables which most studies have ignored. Several studies (such as Christmann, 2000; López-Gamero et al., 2009; Ryszko, 2016; Sharma & Vredenburg, 1998), however, have investigated the mediating effect of firms' intangible resources and capabilities, drawing from Natural Resource-Based View (NRBV). However, as observed by Grewatsch and Kleindienst (2017), the analysis of the mediation effect of firms' intangible resources and capabilities is in its infancy stage.

Furthermore, the research on the effect of corporate sustainability on firm financial performance is dominated by studies from Western countries and emerging Asian economies (Alshehhi et al., 2018; Rhou & Singal, 2020). The number of studies from Africa and specifically Sub-Saharan African countries is negligible (Alshehhi et al., 2018; Grewatsch & Kleindienst, 2017; Rhou & Singal, 2020). Due to differences in socio-economic, political, and managerial traits, the sustainability conceptualizations and its initiatives between the Sub-Saharan region and the West differ (Dartey-Baah, 2011; Kühn et al., 2018; Visser, 2006). Thus, studies from the Sub Saharan Africa context may provide additional insights into the nature of the effect of corporate sustainability on financial performance. Likewise, corporate sustainability is significantly affected by cross-country (Dahlsrud, 2008; Matten & Moon, 2008) and industry (Campbell, 2007; Decker, 2004) differences. To control for such variations, Chand and Fraser (2006) argued that the relationship between corporate sustainability and financial performance needs to be studied at an industry level in a particular country context.

This study examines the mediation effect of firm capabilities on the effect of corporate sustainability on firm financial performance across tourism firms operating in Tanzania. In Tanzania, tourism is a significant contributor to foreign currency earnings, employment, and the GDP of the country (Anderson, 2018; Anderson & Sanga, 2019). In particular, Tanzania receives an average of 1.5 million international tourists per annum and generates over US\$ 2.4 billion which represented more than 25% of the total exports, 60% of services receipts, and 9% of total investments (World Travel and Tourism Council (WTTC), 2020). Therefore, corporate sustainability efforts by tourism firms in Tanzania might have a significant contribution to the sustainable development of the communities around tourists' attractions. This study provides evidence that sustainability by tourism firms is a financially beneficial endeavour. In addition, it highlights the best approach through which the firms should undertake corporate sustainability to ensure sustainable pay-offs. Lastly, the study contributes to the corporate sustainability-performance debate in the tourism industry and the Sub Saharan region in particular.

Literature Review

Corporate Sustainability

Corporate sustainability is one of the concepts that describe the nature of the relationship between business firms and society. Other concepts include corporate social responsibility (CSR), corporate citizenship, responsible tourism, and sustainable tourism (Carroll, 2015; Mihalic, 2016). While these concepts emerged as completely different ideas in the past, they are now converging and are treated as synonyms by researchers (Carroll, 2015; Montiel, 2008; Montiel & Delgado-Ceballos, 2014). The term corporate sustainability, however, has recently become the most preferred (Montiel & Delgado-Ceballos, 2014; Strand et al., 2015). In this study, corporate sustainability is

used as an umbrella term encompassing all other concepts associated with business-society relations. For this paper, corporate sustainability refers to strategies and operating practices of business firms deliberately aiming at caring for the well-being of people and the environment (Glavas & Kelley, 2014).

The concept of corporate sustainability is generally considered to be a multidimensional construct (Grewatsch & Kleindienst, 2017). Despite this understanding, there is no agreement among scholars over the types and number of corporate sustainability dimensions. Those who view corporate sustainability from a sustainable development perspective consider it as a tri-dimensional construct made of the social, environmental, and economic dimensions (Diesendorf, 2000; Elkington, 1997). As a tool for stakeholder management, corporate sustainability initiatives are categorized based on the groups of the target stakeholders; the community, customers, suppliers, and employees (Inoue & Lee, 2011). Suluo, Anderson, et al. (2020) categorized corporate sustainability initiatives in the tourism industry in Tanzania into community, economy, and eco-efficiency initiatives. This classification was consistent with sustainable development tri-dimensional classification of social, economic and environment, respectively (Suluo, Anderson, et al., 2020). The term community initiative refers to philanthropic commitments made to community projects (Kuhn et al, 2018). The economy initiative dimension refers to initiatives that directly or indirectly improve the economy of the community within which the firm operates (Melubo & Lovelock, 2018). Eco-efficiency refers to the efficient use of resources such as water and energy as well as proper management of waste and pollutants (Melubo & Lovelock, 2018).

Firm Financial Performance

The term firm performance has diverse definitions from contributors to organizational research (Venkatraman and Ramanujam, 1986; Wernerfelt, 1984; Barney, 2001). Venkatraman and Ramanujam (1986) argue that firm performance has three dimensions: financial, operational, and overall performance. They argued that financial performance reflects the attainment of economic goals and includes accounting-based and market-based measures. Operational performance refers to non-financial dimensions reflecting operational success which may influence financial performance such as increased market share and productivity. Overall organizational performance reflects a wider conceptualization of performance such as reputation, survival and perceived overall performance. According to Venkatraman and Ramanujam (1986), the three dimensions form three concentric circles with the overall performance at the outer circle and financial performance at the inner circle. They argued that the firm effectiveness is too broad in scope to be practically applied in strategic management research. Therefore, according to Venkatraman and Ramanujam (1986), the conception of performance in research should focus on operational and financial domains.

Later, Combs et al. (2005) proposed a refined approach to Venkatraman and Ramanujam (1986) conceptualization of firm performance by categorizing it into accounting returns, stock market, and growth measures. Accounting returns include measures of profitability as indicated by ratios such as return on investment, return on sales, return on assets, and return on equity. Market returns include measures such as stock prices, Tobin's Q, and security analysts' assessments. Growth returns involve measures such as sales growth, profit growth, market share growth, employment growth, assets growth, and EPS growth. Taking the views of both Venkatraman and Ramanujam (1986) and Combs et al. (2005), financial performance may be defined as the extent to which the

firm attains its economic goals. The economic goals may be assessed based on profitability indicators (i.e. accounting returns measures) and/or perceived market value of the firm (market returns measures). However, both accounting and market returns may be measured using absolute measures or relative (growth) measures. This study makes use of accounting returns measures for two reasons. First, none of the tourism firms operating in Tanzania is listed in the Dar es Salaam Stock Exchange. This means it is unlikely to obtain market returns indicators data. Second, due to the sensitivity of inquiring absolute measures of performance, the study focuses on using growth measures of accounting performance.

Corporate Sustainability, Firm Capabilities and Financial Performance

The effect of corporate sustainability on financial performance is built on the business-case perspective for corporate sustainability. This perspective states that there are specific benefits to businesses in an economic and financial sense which flow from investments in corporate sustainability activities and initiatives (Carroll & Shabana, 2010; Frederiksen & Nielsen, 2013; Nijhof & Jeurissen, 2010). This perspective argues that the interests of the firm and the society at large coincide, thus offering a win-win situation (Carroll & Shabana, 2010). This research strand has been informed by different management theories, one of which is the resource-based view (RBV) (Grewatsch & Kleindienst, 2017; Van Beurden & Gössling, 2008). The RBV proposes that firms achieve different levels of performance primarily because of differences in their resources and capabilities endowment (Barney, 1991). Firms that develop and deploy valuable, rare, inimitable and non-substitutable (VRIN) resources relative to other firms are expected to perform better than other firms (Newbert, 2007). According to Surroca et al. (2010), in contrast to the physical resources, intangible resources are VRIN resources. Among the intangible resources are routines followed within the firm to undertake tasks - these are commonly known as firm capabilities (Zahra et al., 2006). According to Helfat and Peteraf (2003), firm capabilities refer to the abilities of the firm to undertake coordinated tasks, using firm resources, to achieve a particular result.

Hart (1995) extended the RBV to the Natural Resources Based View (NRBV). The NRBV states that the external environment presents sustainability challenges that firms can counter with either proactive or ad-hoc strategies (Hart, 1995). The theory further states that investments in proactive corporate sustainability strategy lead to the development of firm-specific capabilities (Hart, 1995). The firm-specific capabilities, being intangible resources, are expected to have VRIN characteristics and are thus sources of sustainable competitive advantage (Sharma & Vredenburg, 1998) and subsequently better financial performance. This suggests that proactive corporate sustainability may lead to the development of firm capabilities and subsequently, firm capabilities may improve firm financial performance. Thus, one may conclude that firm capabilities may act as mediators between corporate sustainability strategies and firm financial performance (Grewatsch & Kleindienst, 2017; Surroca et al., 2010).

Hypotheses Development

Firms engaged in corporate sustainability initiatives may develop a range of specific capabilities that may be used to help them achieve their sustainability goals (Hart 1995; Sharma & Vredenburg, 1998). Some capabilities that have featured in the literature include shared vision, stakeholder integration/management, continuous innovation, strategic proactivity, capital management, higher-order learning and the integration of CSR issues in strategic planning (Aragon-Correa et

al., 2008; Bansal, 2005; Christmann, 2000; Cordano & Frieze, 2000; Hart, 1995; Sharma et al., 2007; Sharma & Vredenberg, 1998; Torugsa et al., 2013). Researchers have examined the role of these capabilities on the effect of corporate sustainability on firm financial performance as either antecedents or mediators (Aragon-Correa, 1998, Aragon-Correa et al., 2008, Torugsa et al., 2013; Sharma & Vredenberg, 1998). However, this study focuses on the mediation role.

Several studies on NRBV (Christmann, 2000; López-Gamero et al., 2009; Ryszko, 2016; Sharma & Vredenberg, 1998) examined firm capabilities as mediators in the corporate sustainability–firm performance relationship. The results indicated that various capabilities mediate the effect of environmental management initiatives on firm financial performance. These studies generally focused on the environmental dimension of corporate sustainability, ignoring the social and economic dimensions. They also suggest, consistent with NRBV (Hart, 1995; Sharma & Vredenberg, 1995), that firms engaging in corporate sustainability initiatives may develop specific capabilities which may subsequently improve their performance. Studies that focused on SMEs (Aragón-Correa et al., 2008; Torugsa et al., 2013) have identified strategic proactivity capabilities and collaboration capabilities as being associated with small firms' corporate sustainability strategies. Since this study focuses on tourism firms in the Sub-Saharan African context, characterized by the majority of small businesses (Kühn et al., 2018), these two capabilities will further be studied.

Strategic proactivity capability refers to a firms' tendency to initiate changes in its various strategic policies instead of reacting to events (Aragon-Correa, 1998). The objective for developing this capability is to enable firms to shape the general business environment to their advantage (Torugsa et al., 2013). In a corporate sustainability context, strategic proactivity capability refers to the firms' ability to exploit the opportunities brought by sustainability demands and minimize risks associated with them (Aragon-Correa et al., 2008). Firms with strategic proactivity capabilities develop various management and operational processes that enable them to integrate the sustainability demands in their strategies (Torugsa et al., 2013). Such firms invest heavily to enhance sustainable technological leadership and are quick in introducing sustainable products and thus creating and expanding the markets for them (Aragon-Correa, 1998). Firms with such capabilities are more likely to exploit corporate sustainability to enhance their competitive advantage and subsequently financial performance (Aragon-Correa, 1998; Torugsa et al., 2013). As proposed by Hart (1995), firms that approach corporate sustainability with a proactive stance may need to develop capabilities such as strategic proactivity which may later be the source of sustained financial performance. This suggests that strategic proactivity capability may play a mediation role between sustainability initiatives and firms' financial performance.

Most tourism firms in Sub-Saharan Africa, including Tanzania, are small businesses (Kühn et al., 2018). Small businesses commitment to sustainability is generally constrained by challenges such as insufficient financial resources, implementation difficulties, and firm culture (Hillary, 2004; Jansson et al., 2017). However, even under the influence of such challenges, SMEs which take certain entrepreneurial orientations by creating capabilities such as strategic proactivity may improve their performance (Hamann et al., 2015). Despite difficulties in creating such capabilities, the SMEs owners have a higher possibility of translating their sustainability inclinations into organizational practices since they have a higher degree of direct control on operations and influence on organization culture (Hamann et al., 2015; Teece, 2014). Empirical findings in Sub-

Saharan Africa also indicate that SMEs need to take a proactive stance and strategic actions to enhance their performance (Ogbari et al., 2018; Robb & Stephens, 2021). Therefore, it is expected that tourism firms in Sub Saharan Africa that may develop strategic proactivity capability may establish an alignment between their sustainability initiatives' impacts and firms' financial performance which may ultimately help them achieve enhanced financial outcomes. Due to its ability to align sustainability initiatives with firm outcomes, the mediation effect of strategic proactivity capability is expected to be true for all the initiatives: community, economy, and eco-efficiency. Therefore, it is hypothesized that:

H1a: Strategic proactivity mediates the effect of community initiatives on firm financial performance;

H1b: Strategic proactivity mediates the effect of economy initiatives on firm financial performance; and,

H1c: Strategic proactivity mediates the effect of eco-efficiency initiatives on firm financial performance.

Collaboration capability refers to the firms' ability to establish a trust-based collaborative relationship with stakeholders, especially those without economic goals (Sharma & Vredenberg, 1998). Stakeholders with non-economic interests in the Tanzanian context may include local communities, environmental groups, government institutions, and non-governmental organizations (NGOs) (Suluo, Mossberg, et al., 2020). Collaboration capability allows firms to institute mechanisms to consult stakeholders for knowledge and integrate that knowledge into their policies, products, and processes enhancements (Sharma & Vredenberg, 1998). The firms' alliances with collaborators may expand the resource base that may be available for the execution of corporate sustainability initiatives (Aragon-Correa et al., 2008). This capability may also enhance the ability of the firm to reduce the negative influence of the social and environmental impact in its pursuit of competitive advantage (Torrugsa et al., 2013).

Despite the scarcity of studies on the mediation role of collaboration capability, Sharma and Vredenberg (1998) found that petroleum firms' proactive environmental strategies led to the development of collaboration capabilities which subsequently influenced the firms' competitive advantage. However, Sharma and Henriques (2005) argue that different dimensions of corporate sustainability are influenced by stakeholders differently. For example, they argued that external stakeholders do not influence firms' initiatives of eco-efficiency initiatives. This suggests that firms may not necessarily need to establish collaborative relationships with external stakeholders in response to the execution of initiatives without immediate benefits to the external stakeholders such as eco-efficiency. However, the tourism firms' experience in Tanzania shows that implementation of corporate sustainability practices with immediate benefits to the community such as community and economy initiatives heavily depended on the establishment of various collaborations with external stakeholders (Melubo & Lovelock, 2018; Suluo, Mossberg, et al., 2020). However, contrary to Sharma and Vredenberg (1998) where collaborations enable firms to obtain stakeholders' views to incorporate sustainability in improving its internal processes and products design to reflect sustainability concerns, in Tanzania, collaboration capabilities enabled firms to transfer their sustainability functions to the external stakeholders for implementation (Suluo, Mossberg, et al., 2020). Therefore, the mediation effect of collaboration capability on the

relationship between corporate sustainability initiatives and firm financial performance is hypothesized as follows:

H2a: Collaboration capabilities mediate the effect of community initiatives on firm financial performance;

H2b: Collaboration capabilities mediate the effect of economy initiatives on firm financial performance; and

H2c: Collaboration capabilities do not mediate the effect of eco-efficiency initiatives on firm financial performance.

Methodology

This study tests the hypothesized moderating roles of firm capabilities on the effect of corporate sustainability on financial performance of tourism firms in Tanzania. Thus, a quantitative approach was considered appropriate based on the study's objectives. In Tanzania's tourism industry, over 80% of tourism firms are either tour operators or accommodation businesses (United Republic of Tanzania (URT), 2018). Thus, the study sampled tour operators and accommodation firms as the unit of analysis. In this study, tour operators are firms engaged in selling tour packages through agents or directly to final consumers. A tour package may include several services such as transport, accommodation, meals, mountain trekking, national parks tour, sightseeing, etc. Accommodation firms are those firms that regularly or occasionally provide sleeping accommodation and meals to tourists.

Data was collected from the tour operators and accommodation facilities which are members of the Tanzania Association of Tour Operators (TATO) and Hotel Association of Tanzania. There were 203 tour operators in the TATO members' directory and 186 accommodation facilities in the HAT members' directory. The directories were downloaded from the respective associations' websites. Self-administered questionnaires were circulated physically to the offices of tour operators and accommodation firms. Every firm was required to fill only one questionnaire and was to be filled by individuals holding the top management positions. The top managers were considered relevant respondents since they receive information and make decisions about the sustainability and financial matters of the firm. Finally, 304 properly filled questionnaires were collected, where 141 were from the accommodation firms (46%) and 163 were from the tour operators (54%). This number was adequate for a structural model of 6 constructs with at least 3 measured items as indicators (Hair et al., 2010). The largest proportion of respondents (40%) was made up of directors/general managers. Other respondents included owner-managers (21%), finance managers (16%), operations managers (for tour operators) (14%), and sustainability/CSR managers (9%). The distribution based on firm size was as follows; micro-sized (31%), small-sized (49%), medium-sized (13%), and large-sized (7%).

Measures

Due to a non-availability of the secondary data on firms' capabilities and implementation of corporate sustainability initiatives, managers' self-perception measures were used (Aragon-Correa et al., 2008; Torugsa et al., 2013; Ghaderi et al., 2019). Similarly, perceptual measures were adopted for the measurement of the financial performance of tourism firms. Despite the bias which may be introduced with the subjectivity of perceptual measures, empirical evidence suggests that

the subjective measures have content validity and reliability too (Chandler & Hanks, 1993; Vij & Bedi, 2016). The study constructs were thus measured as indicated below:

Corporate Sustainability: The corporate sustainability construct was measured in three separate initiatives – community, economy, and eco-efficiency. Measurement items for the three constructs were adopted from Suluo, Anderson, et al. (2020). Each of these three constructs was measured using items indicating initiatives the firm has actively been undertaking in the past five years. The measurement employs a five-point Likert scale ranging from 1 (never undertaken) to 5 (always undertaken).

Firm Capabilities: Firm capability was measured in two separate constructs – strategic proactivity capability and collaboration capability. Strategic proactivity capability was measured using items adapted from a validated scale developed by Aragon-Correa (1998) and later used by Aragon-Correa et al. (2008) and Torruga et al. (2013). Respondents were requested to rate the extent of their agreement with each statement using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Collaboration capability was measured using scale items for external collaborations adopted from Allred et al. (2011). Respondents were requested to rate the extent of their agreement with each scale item using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Financial Performance: Financial performance was measured in one construct. The construct was operationalized using, as a proxy, the managers' level of satisfaction with the overall financial situation of the firm for the past five years (Garay & Font, 2012; Molina-Azorín et al., 2009; Suluo, Anderson, et al., 2020). Respondents were requested to indicate their level of satisfaction with the overall financial situation of the firm in the past five years employing a five-point Likert scale ranging from 1 (very poor) to 5 (very good).

Control Variables: Researchers indicate that corporate sustainability initiatives vary across the tourism industry subsectors (Dodds & Kuehnel, 2010; Martínez et al., 2013) and therefore is the effect of such initiatives on firm financial performance (Inoue & Lee, 2011; Lee & Park, 2009). Since this study collected data from both tour operators and accommodation firms, it was found necessary to control for the effect of firm type. Similarly, large firms' corporate sustainability initiatives are considered to be more effective due to their endowment of slack resources relative to small firms (Aguinis & Glavas, 2012; Van Beurden & Gössling, 2008). Again, this observation necessitated controlling for the effect of firm size. Firm type refers to whether a firm is an accommodation firm or tour operator. The firm size was determined based on the number of employees. According to the Tanzania National SMEs Policy of 2002, firm sizes based on the number of employees are categorized as follows: the micro-sized (0 to less than 5), small-sized (5 to 49), medium-sized (50 – 99), and large firms (above 100).

A questionnaire was designed to capture all the measurement scale items for all the constructs as well as information required for control variables. The questionnaire was subjected to critical review by 4 experts from the tourism industry in Tanzania to ensure content validity. In addition, the questionnaire was subjected to a pilot test by 23 tourism firms' managers to test whether it was comprehensible and that the questions were well defined, clearly understood, and presented consistently. The final questionnaire was used for data collection.

Table 1: Measurement Scales

		Loadings	AVE	CR	CA
Corporate Sustainability initiatives					
<i>Community initiatives</i>			0.717	0.949	0.909
SPS1	Our firm supports education projects	0.883			
SPS2	Our firm supports healthcare projects	0.891			
SPS3	Our firm helps communities have access to clean water	0.823			
SPN2	Our firm supports the conservation of wildlife and their habitats	0.785			
<i>Economy initiatives</i>			0.567	0.872	0.919
SPE1	Our firm purposely hires employees locally	0.689			
SPE2	Our firm purposely purchases its supplies locally	0.796			
SPE4	Our firm empowers women and youth economically	0.77			
<i>Eco-efficiency initiatives</i>			0.779	0.949	0.888
SPV1	Our firm ensures it uses its resources (energy, water, etc) efficiently	0.742			
SPV3	Our firm ensures it minimizes pollution	0.918			
SPV4	Our firm manages its wastes responsibly	0.971			
Firm Sustainability Capability					
<i>Collaboration Capability</i>			0.713	0.948	0.907
SRC1	Our firm regularly contacts local communities' leaders to understand their sustainability challenges.	0.9			
SRC2	Our firm frequently make contacts with institutions (such as schools, hospitals, etc) to understand their sustainability challenges	0.832			
SRC3	Our firm frequently meet its stakeholders to discuss sustainability issues	0.85			
SPC1	Our firm always collaborates with various stakeholders to initiate, run or enhance sustainability initiatives	0.793			
<i>Strategic Proactivity Capability</i>			0.764	0.948	0.907
SPC2	Our firm has a variety of products/services and we are always looking for new opportunities in the tourism industry to develop more packages.	0.888			
SPC3	The main technology focus of this firm is on having leading flexible and innovative technologies	0.843			
SPC4	Our planning systems are very open and flexible to allow us to seize new opportunities.	0.891			
Financial Performance			0.655	0.932	0.882
SFP1	Achieving the desired business growth	0.739			
SFP2	Securing the desired number of customers	0.811			
SFP3	Attaining desired sales level.	0.866			
SFP4	Attaining desired profit level.	0.817			

AVE = Average Variance Extracted; CR = Composite Reliability; CA = Cronbach Alpha Coefficient

Results

Confirmatory Factor Analysis

Model Fit

The CFA was conducted for 6 factors and 21 measurement scales. The confirmatory factor analysis results suggest that the measurement model provides a reasonable goodness-of-fit ($\chi^2 = 315.81$, $df = 174$, $p = 0.000$, $\chi^2/df = 1.815$, $RMSEA = 0.055$, $SRMR = 0.0545$, $CFI = 0.963$, $TLI = 0.956$) and thus it is suitable to proceed to examine construct validity.

Construct Validity and Reliability

From the confirmatory factor analysis results (Table 1), all standardized loadings estimates and AVE exceeded the recommended minimum of 0.5. Also, composite reliability values were above the recommended minimum of 0.7. The results also confirm discriminant validity since all AVEs are higher than inter-construct squared correlations. Scale reliability test results indicate that constructs passed the internal consistency (reliability) test since for each construct, the Cronbach's alpha coefficients were at least 0.7, items-to-total correlations exceeded 0.5 and inter-item correlations exceeded 0.3 (Pallant, 2013).

Common Method Bias

In this study, all the data was collected using self-reported measures which may present common method bias. To control for common method bias, Harman's single factor test was performed by conducting an exploratory factor analysis for all the study variables (Podsakoff et al., 2003). The exploratory factor analysis showed that a single factor explained only 26.8% of the variances. We also performed the common latent factor test where we compared the standardized regression weights between the CFA models with and without a common latent factor (Guo et al., 2017). The highest difference was 0.14. Where the difference between variable's standardized regression weights with and without common latent factor is 0.20 or more, that indicates the presence of common method bias (Guo et al., 2017). Therefore, the results suggest that common method bias is not a significant concern in the study model.

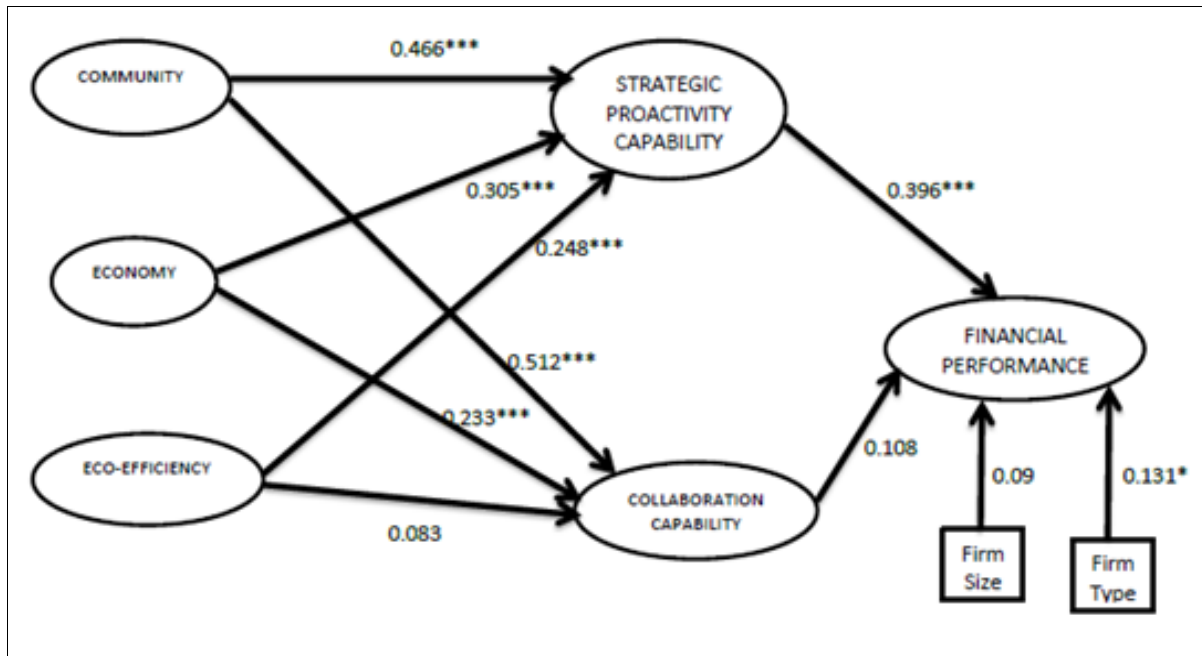
Structural Equation Modelling (SEM) Results

Multivariate Assumptions

SEM analysis assumes that data distribution is normal, linearly related, and free from multicollinearity. Univariate and multivariate normality were reviewed using kurtosis critical values (Byrne, 2010). The results indicate that the univariate kurtosis values were less than 7 which suggests that data distribution is moderately normal (Byrne, 2010). Similarly, the multivariate kurtosis indicated that the critical ratio is 4.191 which suggests that the data was moderately multivariate non-normal but sufficient for the SEM estimation technique (Byrne, 2010; Ory and Mokhtarian, 2010). Multicollinearity was determined by the computation of the Variance Inflation Factor (VIF). The results show that all VIF values were less than 2, indicating that all exogenous variables were distinct from each other (Pallant, 2013). Linearity among latent variables is difficult to assess. However, the linear relationship between pairs of measured variables can be assessed through a matrix of scatterplots between each pair of the variables (Pallant, 2013). The number of scatterplot matrices to be reviewed was relatively large, given a large number of items. Therefore, the evaluation was conducted through inspection of scatterplots matrices for several pairs of variables randomly selected from the data. The results indicated that the relationship between all the reviewed pairs of observed variables was moderate to strong linear.

Hypotheses Testing

The analyses of the structural models to test the hypotheses were conducted using AMOS version 23. To examine the mediation effects of firm capabilities on corporate sustainability initiatives and firm financial performance relationships, three alternative structural models were estimated. This is consistent with four conditions for examining the mediation effect by Baron and Kenny (1986) and their application by Maxham III and Netemeyer (2002) and Baldauf et al. (2009).



* $p < 0.05$; * $p < 0.01$; *** $p < 0.001$

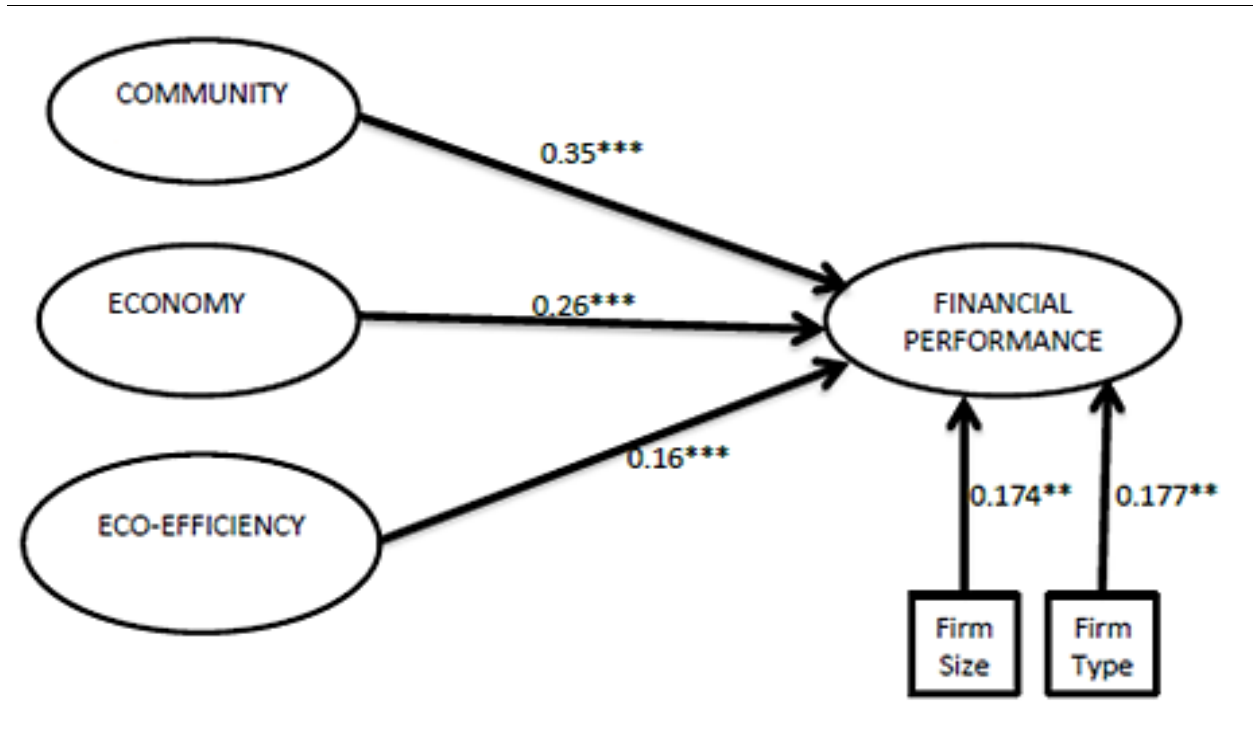
Figure 1: Full Mediation Structural Model

The first condition is satisfied if the independent variables (community, eco-efficiency, and economy) directly affect the mediators (strategic proactivity and collaboration capabilities). The second condition is satisfied if the mediators (strategic proactivity and collaboration capabilities) directly affect the dependent variables (financial performance). To review these two conditions, a full mediation model (Figure 1) was estimated with direct paths from independent variables to the mediator and from the mediator to a dependent variable but without direct paths from independent variables to the dependent variable.

The path coefficients in Table 2 indicate that all corporate sustainability initiatives positively and significantly relates to both the mediators (firm capabilities) except for eco-efficiency initiatives on the collaboration capability path. This suggests that condition 1 is met. The path coefficients in Table 2 further indicates that strategic proactivity capabilities (a mediator) positively and significantly relates to firm financial performance. However, collaboration capabilities have no significant relationship with firm financial performance. This suggests that condition 2 is met along the strategic proactivity capability path and not on the collaboration capability path.

The third condition is satisfied if the independent variables (community, eco-efficiency, and economy initiatives) directly affect the dependent variable (financial performance). To examine this condition, a Direct Effect Model (Figure 2) was estimated with direct paths from independent

variables to the dependent variable, without paths linking mediator to independent or dependent variables. The structural path coefficients, Table 2, indicate that all corporate sustainability initiatives are positively and significantly related to firm financial performance. This suggests that condition 3 is met for all paths.



* $p < 0.05$; * $p < 0.01$; *** $p < 0.001$

Figure 2: Direct Effects Model

The fourth mediating condition is satisfied if the direct paths from the independent variables (community, eco-efficiency, and economy initiatives) to the dependent variable (financial performance) become insignificant (signifying full mediation) or reduced in strength (signifying partial mediation) when the mediator is included in the model. This condition was evaluated using the partial mediation model (Figure 3). The path coefficients, Table 2 indicates that the direct path of eco-efficiency initiatives on firm financial performance has become insignificant and reduced in strength after the introduction of mediators. Also, the direct paths of economy and community initiatives have been reduced in strength although they remain significant. This means that condition 4 is met.

Therefore, the results suggest that strategic proactivity capability fully mediates the effect of eco-efficiency initiatives on firm financial performance while partially mediates the effect of economy and community initiatives, and firm financial performance. In contrast, collaboration capability has failed to mediate the effect of corporate sustainability initiatives on firm financial performance.

Therefore, the results confirm hypotheses H1a, H1b, H1c, and H2c; while rejecting the hypotheses H2a and H2b.

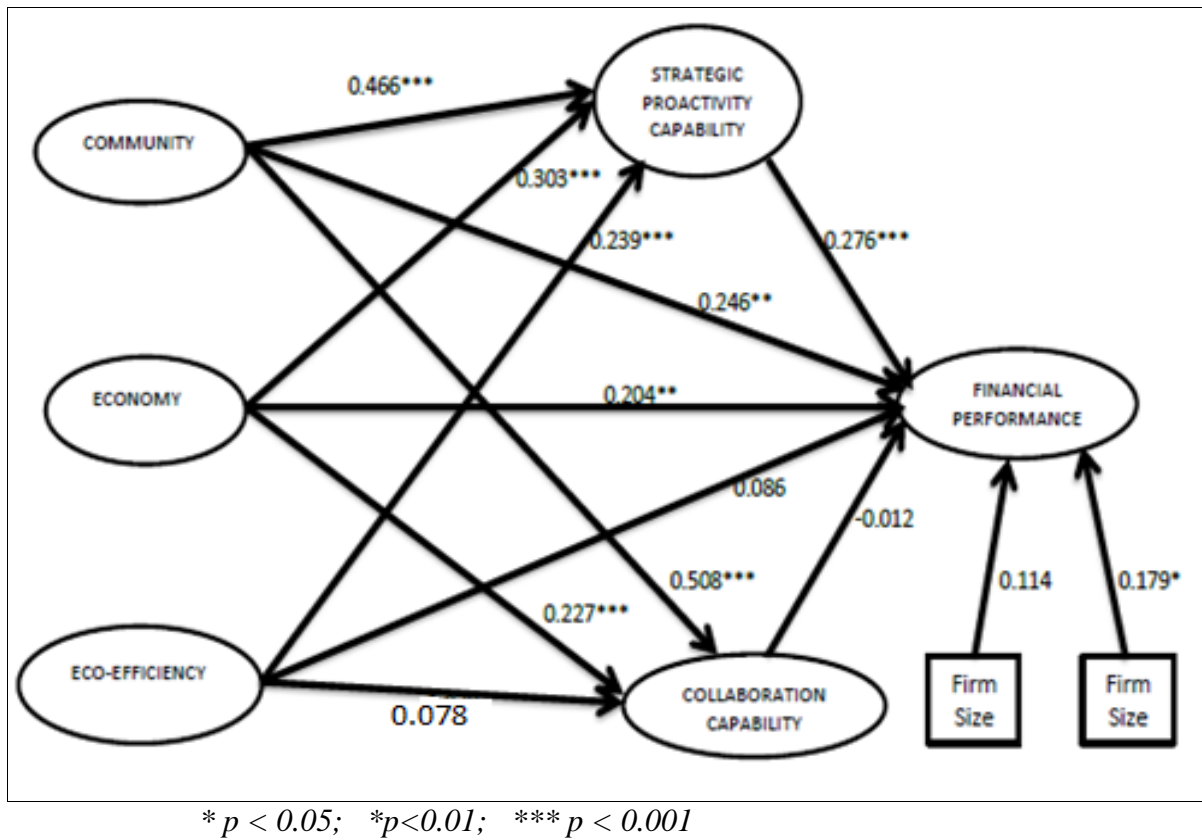


Figure 3: Partial Mediation Model

The final test for partial mediation involved testing whether the partial mediation model produces a better fit than the full mediation model. The model fit statistics, Table 2, indicate that the partial mediation model has better model fit indices than the full mediation model. Moreover, a chi-square difference test was performed to determine if the difference between the models is significant. The results indicate that the partial mediation model is not significantly the best model than the full mediation model. The data, thus, support partial mediation for some corporate sustainability initiatives and full mediation for others.

Table 2: SEM Analysis Results

			FULL MEDIATION	DIRECT EFFECT	PARTIAL MEDIATION
Collaboration Capability	<---	Community	0.512***		0.508***
	<---	Eco-efficiency	0.083		0.078
	<---	Economy	0.233***		0.227***
Financial Performance	<---	Collaboration	0.108		-0.012
	<---	Community		0.350***	0.246**
	<---	Eco-efficiency		0.164**	0.086
	<---	Economy		0.263***	0.204**
	<---	Firm Size	0.090	0.174**	0.114
	<---	Firm Type	0.131*	0.177**	0.179*
	<---	StrategicProactivity	0.396***		0.276***
Strategic Proactivity	<---	Community	0.466***		0.459***
	<---	Economy	0.305***		0.303***
	<---	Eco-efficiency	0.248***		0.239***
Model Fit Estimates					
Chi-square			410.004	178.629	387.948
DF			212	91	208
CMIN/DF			1.934	1.963	1.865
p-value			0.000	0.000	0.000
CFI			0.952	0.967	0.956
TLI			0.943	0.956	0.947
RMSEA			0.058	0.059	0.056

* p < 0.05; ** p < 0.01; *** p < 0.001

Discussion

This study examines the mediation effect of firm sustainability capabilities on the effect of corporate sustainability initiatives on firm financial performance. The results indicate that strategic proactivity capability partially mediates the effect of corporate sustainability initiatives (community and economy) on firm financial performance, while fully mediates the effect of eco-efficiency initiatives on firm financial performance. However, the results show that the mediation effect of collaboration capability on the effect of corporate sustainability initiatives on firm performance is not supported. The findings mean that strategic proactivity is the most effective capability that may ensure firms' corporate sustainability initiatives result in financial pay-offs. This seems to stem from the very nature of strategic proactivity capability, that is, the firm can turn corporate sustainability opportunities and risks into its advantage (Aragon-Correa, 1998; Torruga et al., 2013). In contrast, the findings mean that collaboration with stakeholders does not guarantee firms' corporate sustainability initiatives' financial pay-offs. This means that collaboration with stakeholders, as practised in Sub-Saharan Africa, which focuses on outsourcing corporate sustainability implementation efforts, does not enhance firm financial performance.

The results also show that all corporate sustainability initiatives have significant positive relationships with strategic proactivity capability. This indicates that as firms increase their

involvement in corporate sustainability initiatives, they tend to shift away from ad-hoc to the strategic proactive implementation of corporate sustainability. When firms' corporate sustainability involvement is higher, more resources, efforts, and stakeholders are involved in the process; something which makes it difficult for corporate sustainability implementation to be effective without adopting a strategic proactive stance. The results further showed that community initiatives were the strongest predictors of strategic proactivity capability followed by economy initiatives. In comparison with other initiatives, the community initiative is the most common corporate sustainability initiative in the Sub-Saharan African context (Kühn et al., 2018; Melubo & Lovelock, 2018; Visser, 2006; Suluo, Mossberg, et al., 2020) and involves making philanthropic contributions towards community projects with little direct reciprocal benefits to firm self-interests (Suluo, Anderson, et al., 2020). Therefore, firms may need strategic proactivity capabilities to ensure the link between community initiatives and firm self-interests become more certain. Relatively, firms may enjoy immediate financial benefits when they engage in both economy and eco-efficiency initiatives (Suluo, Anderson, et al., 2020) and thus relatively little strategic proactivity is required to align these initiatives with firms' self-interests. This may explain why relative to community initiatives, the other two initiatives have relatively low predictive power on firm strategic proactivity capabilities.

Corporate sustainability initiatives also have a significant positive relationship with collaboration capability except for eco-efficiency initiatives. This means that effective execution of community and economy initiatives leads to the establishment of collaborations with local communities, government institutions and NGOs. In contrast, eco-efficiency initiatives, consistent with Sharma and Henriques (2005), do not demand firm collaboration with external stakeholders. This observation implies that since community and economy initiatives in Sub Saharan Africa have direct immediate benefits to the community in comparison to eco-efficiency initiatives (Suluo, Anderson, et al., 2020); their successful implementation requires close collaboration with community stakeholders. However, since eco-efficiency initiatives are mainly linked to firms' internal operational efficiency and have little, if any, direct immediate benefits to the external community within which the firm operates (Suluo, Anderson, et al., 2020), do not demand external stakeholders collaboration for its effective implementation (Sharma & Henriques, 2005).

While these findings support prior studies' (Christmann, 2000; López-Gamero et al., 2009; Ryszko, 2016; Sharma & Vredenburg, 1998) findings, which indicate that firm capabilities mediate the effect of corporate sustainability on firm performance, they contrast the findings by Sharma and Vredenburg (1998) that collaboration capabilities have mediation role. The contrasting findings may be explained by the differences in the conceptualization of collaboration capability. According to Sharma and Vredenburg (1998), and Hart (1995) collaboration is expected to enable firms to use stakeholders' views to incorporate sustainability in improving their internal processes and products design to reflect sustainability concerns. However, in the Sub-Saharan Africa context, collaboration capability enabled firms to transfer their sustainability functions to the external stakeholders for implementation. These results confirm NRBV's proposition that corporate sustainability initiatives trigger the development of firm sustainability initiatives (Hart, 1995; Sharma & Vredenburg, 1998). In addition to that, the results indicate that corporate sustainability initiatives have varying relationships with different capabilities. This observation implies that a given corporate sustainability initiative triggers the development of firm capabilities which are specifically important in ensuring the overall effectiveness and efficiency of such a particular

initiative. Where the capability is not necessary for the effective implementation of a particular initiative, there will be no significant effect of such initiative on the capability. Therefore, the overall goal of the firm to establish an initiative will decide the nature of a capability that firms need to develop to ensure the effective and efficient use of resources in attaining the intended goal.

Conclusion

This study examines the mediating effect of firms' capabilities on the effect of corporate sustainability initiatives on the financial performance of tourism firms in Tanzania. The results show that strategic proactivity capability partially mediates the effect of the community and economy initiatives on firms' financial performance while fully mediates the effect of eco-efficiency initiatives on firm financial performance. The mediation effect of collaboration capability is not supported.

In Sub-Saharan Africa, sustainability initiatives targeting to benefit of the community are highly valued by the stakeholders and firms emphasize them while other non-community related initiatives are given little emphasis (Kühn et al., 2018; Melubo & Lovelock, 2018; Suluo, Anderson, et al., 2020). Therefore, in light of these findings, it may be postulated that the effect of corporate sustainability initiatives, which are highly valued in a particular context, on firm financial performance is likely to be partially mediated through strategic oriented firm capabilities. This may be true because highly emphasized/valued initiatives are those which bring a win-win solution to both firms and stakeholders (Suluo, Anderson, et al., 2020). Therefore, firms do not need to put much effort to align their corporate sustainability initiatives with firm self-interests. However, the effect of corporate sustainability initiatives, which are less valued by stakeholders in a particular context, on firm financial performance is likely to be fully mediated through strategically proactive oriented firm capabilities. This means that, since such initiatives do not bring a win-win solution to both firms and stakeholders (Suluo, Anderson, et al., 2020), firms require more strategic proactivity efforts to align the outcome of such initiatives with firms' self-interests.

The results imply that firms may hasten the adoption of sustainable development principles with confidence that it pays to do so. However, the study clarifies that there are two ways through which firms may guarantee financial pay-offs from their corporate sustainability commitments. First, corporate sustainability initiatives that have direct benefits to the society, such as community and economy initiatives in Sub-Saharan Africa have direct reciprocal financial benefits to the firm even when undertaken in an ad-hoc manner. However, those initiatives which do not benefit the society directly, such as eco-efficiency in Sub-Saharan Africa, may not have direct reciprocal firm benefits. This means that even firms that have low ability to develop a strategic proactive approach to corporate sustainability implementation may focus on corporate sustainability initiatives which are highly valued by the primary stakeholders in their business contexts, as a starting point. Second, regardless of the nature of corporate sustainability initiatives, undertaking corporate sustainability initiatives through a strategically proactive approach will pay off. This is because a strategically proactive approach to corporate sustainability implementation enables firms to align their corporate sustainability initiatives with their self-interests.

It is thus important for tourism firms' associations, government authorities, and NGOs to popularise the narrative that "it pays to be good". Moreover, policymakers need to understand that

firms always prefer to invest in initiatives that enhance their self-interests. To encourage more firms to adopt sustainable development principles, the government needs to reward such efforts by providing incentives, such as tax-related incentives, to firms that engage in corporate sustainability. Moreover, tourism firms' associations need to promote the application of sustainability certifications so that firms' sustainability efforts may be recognized and rewarded. This study has several limitations. The mediating effect of firm sustainability capabilities on the effect of corporate sustainability initiatives on firm performance was analysed using the NRBV lens. Other theories, such as the Stakeholders' Theory (Anderson et. al., 2017; Theodoulidis et al., 2017), also provide a different perspective on how this relationship can be evaluated as well as providing room to identify other non-capabilities mediators. Also, this study focused on the capabilities aspect of NRBV. The NRBV also argues that physical resources may act as a mediating variable between corporate sustainability and firm performance if they are valuable, rare, inimitable, and non-substitutable (Hart, 1995). Future studies may as well consider the mediating effect of physical, financial, and intangible sustainability firm resources on the effect of corporate sustainability initiatives on firm financial performance. Lastly, this paper has made use of subjective measures to operationalize its constructs. However, subjective measures may present problems with common source bias, social desirability, and supervisor biases (Vij & Bedi, 2016). Future studies, where possible, may try to make use of objective measures to operationalize these constructs.

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