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Are you good enough? CSR, quality management and corporate financial performance in the hospitality industry

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Abstract

Hospitality firms are increasingly investing in corporate social responsibility (CSR) to generate strong relationships with stakeholders while aiming to benefit their own performance. However, CSR may bring both costs and benefits to the focal firm. We analyze how corporate financial performance (CFP) is affected by CSR, finding that the impact of CSR on CFP has a U-shaped form, where CSR is a cost that translates into higher benefits only when it generates solid relationships between firms and their stakeholders. Furthermore, we adopt a contingency approach, assessing the role of quality management (QM) on the CSR-CFP relationship. We find that the simultaneous implementation of CSR and QM is less beneficial to CFP than the isolated implementation of CSR due to the redundancy of different activities aimed at similar goals, i.e., stakeholders' satisfaction. In doing so, we advance academic understanding of the impact of CSR and QM on CFP.

Introduction

Business strategies and regulations increasingly demand that firms enhance their social and environmental performance (Lubin and Esty, 2012; Meier and Cassar, 2018), assessed through corporate social responsibility (CSR) practices (Theodoulidis et al., 2017). This is particularly true in the hospitality sector, where initiatives like the International Tourism Partnership, or the companies' annual CSR reports, demonstrate the increasing involvement of hospitality firms in responsible business practices. Although there are many examples of successful CSR programs, there are also cases where companies' claims do not correspond to virtuous behaviors. Recently, for example, cruise companies that have been blamed for the decline of some sea destinations (The Guardian, 2019) are facing reputational problems. These considerations drive research to deepen the understanding of CSR's effects on corporate financial performance (CFP) by considering that the mere investment in CSR is insufficient to improve performance, recognizing that a more comprehensive view should be developed. According to the literature, the involvement in sustainability programs signals companies' wealth (Eccles et al., 2014) and improves their relationships with stakeholders by increasing trustworthiness and reciprocity, consequently benefiting CFP (Barnett, 2007; Barnett and Salomon, 2012). Nevertheless, carrying out CSR activities also implicates costs that may lead to a competitive disadvantage compared to competitors that do not engage in them (Barnett and Salomon, 2006, 2012; Friedman, 1970). Despite the extensive literature on the CSR-CFP relationship, research is still far from finding a shared view on this relationship and previous articles have found mixed results (Garay and Font, 2012; Theodoulidis et al., 2017).

In particular, the literature focuses on the linear relationship between CSR and CFP, but very few studies try to assess the balance between them (Font and Lynes, 2018) – considering both costs and benefits that characterize CSR – thus testing for a non-linear relationship. Indeed, according to stakeholder theory, the impact of CSR on CFP may be both positive and negative, because stakeholders may reward firms that perform well in CSR, but their reaction does not impact performance when firms achieve poor results in it. In other words, CSR-related costs are not exceeded by gains in CFP until the CSR shows success. Previous research has argued that the impact of CSR on CFP may follow either a U-shape (Park and Lee, 2009; Barnett and Salomon, 2012) or an inverted U-shape (Bowman and Haire, 1975) trend relying on the stakeholder theory and on the theory of the firm respectively. However, these studies do not consider that companies with weak CSR performance may even be penalized by stakeholders, whose negative attitudes towards such firms may be detrimental to their performance (Carlos and Lewis, 2018). Hence, this study intends to contribute to fill this research gap by investigating whether such a CSR-performance "threshold effect" exists by using an updated database of businesses. More specifically, this paper assumes that the relationship between CSR and CFP is likely to follow a U-shaped trend. Hence, the U-shaped relationship represents two kinds of companies: those whose performance decreases when their CSR efforts increase, but at a level that does not allow them to reach and go beyond the "threshold effect" (i.e., the stakeholders tend to punish their relatively weak CSR commitment); and those who overcome the "threshold effect", thus experiencing an increase in their performance. In other words, this study proposes the idea that involvement in CSR programs is not per se a condition to raise CFP and that a threshold level of responsible performance must be met by hospitality firms to improve their financial performances; in doing so, this study challenges most of the existing studies that suggest that an increase (decrease) in CSR performance always leads to a better (worse) financial performance (i.e., a linear relationship between CSR and CFP).

Moreover, CSR's impact on CFP should be measured considering the important effects that contingency factors exert on this relationship (Grewatsch and Kleindienst, 2017). In particular, quality management (QM) – an approach aimed at satisfying stakeholders that shares many common grounds with CSR (McAdam and Leonard, 2003; Quintana-García et al., 2018) – plays an important role in determining the effects of CSR on CFP. Although several articles find that employing CSR and QM together benefits performance, very few studies try to assess quantitatively the effects of their interplay on CFP. Moreover, another gap in the existing research is that of the possible tensions between CSR and QM due to the fact that they are two different approaches aimed at similar goals. All that said, this study intends to answer to the following research questions:

RQ1: Does CSR have a U-shaped effect on CFP?

RQ2: Is QM able to exert a moderating effect over the relationship between CSR and CFP?

Through a multiple panel-data-regression methodology, run on a sample of listed hospitality firms, this paper assesses the non-linear (i.e., U-shaped) relationship between CSR and CFP, by considering that stakeholders may react negatively (positively) to low (high) levels of CSR. The stakeholder lens adopted in this research also allows us to provide first compelling evidence that firms' involvement in QM activities shapes the curvilinear impact of CSR on their performance. The implementation of different activities aimed at similar goals diminishes the benefits that CSR has on CFP. In greater detail, this paper takes in consideration quantitative performances of CFP to assess whether a firm's CSR commitment is beneficial for its performance or not, instead of considering perceived management performance as done in some previous studies (McGuire et al., 1990). This approach, based on financial-based measures, is in line with previous studies that analyze the relationship between CSR and CFP in the hospitality literature (Theodoulidis et al., 2017).

The outcomes of our research show that the simultaneous implementation of CSR and QM is less beneficial to CFP than the isolated implementation of CSR due to the redundancy of different activities aimed at similar goals, i.e., stakeholders' satisfaction. In doing so, we advance academic understanding of the impact of CSR and QM on CFP and we provide practitioners with clear indications on how to balance CSR and QM efforts.

The article is structured as follows: in the next section it discusses possible negative and positive effects that stakeholders have on performance in relation to the firms' level of CSR, and the importance of considering QM as a firm-specific factor that shapes the CSR-CFP relation. The "Methods" section shows how panel data methodology allows us to evaluate the moderated U-shaped relationship. In this section, we also introduce several control variables that allow us to avoid endogeneity problems, as we recognize that performance may be influenced by several organizational variables and also by year dummy variables. In the "Results" section, the statistical analysis confirms how different levels of CSR have different impacts on financial performance due to the response of firms' stakeholders. The "Discussion" section describes how the analysis contributes to the understanding of the complex relation between CSR, QM and CFP. Finally, our "Conclusions" highlight the theoretical and methodological contributions brought about by our analysis's approach, as well as limitations and future research directions.

Section snippets

The relationship between CSR and CFP

CSR has been defined in various ways and from several perspectives (Freeman and Hasnaoui, 2011), and it is recognized as a multidimensional concept embracing economic, legal, ethical, and philanthropic aspects (Carroll, 1999). According to stakeholder theory (Freeman, 1984), CSR is the strategic orientation of firms, capable of implementing socially and environmentally responsible actions while still pursuing their economic goals (Russo and Perrini, 2010; Goffi et al., 2018), taking all the...

Sample and data collection

The sample of our study includes worldwide hospitality firms that are listed on stock markets in order to have a high and comparable level of stakeholders involved. For the purposes of this study, a panel data analysis was run on data that cover the 2012–2017 period; all data were sourced from the Thomson Reuters Eikon data base. Thomson Reuters Eikon covers 99% of the world's market cap, which means that we were able to collect information about almost all the listed companies belonging to...

Results

Table 4 shows the descriptive statistics of our sample. Firms in the sample show, on average, a ROE of 18%. The ESG score has an average value of 56.06 with a minimum of 18.65 and a maximum of 83.24. The average value of total assets is $15.8 billion and firms employ on average almost 45,000 workers, evidencing that our sample is composed of large corporations. The average ISO 9001 value is 0.41, showing that the QM standard is well represented in our sample. In Table 5 the correlations among...

Discussion

The aim of this study is to theoretically clarify and empirically quantify the impact that CSR has on CFP, overcoming the mixed, and sometimes contradictory, results found in literature so far (Font and Lynes, 2018). Literature suggests that CSR is strictly related to the strength of the relationship of the focal firm with its stakeholders, and strong relationships are beneficial to financial performance. On the other hand, previous findings also suggest that weak performances in CSR are...

Conclusions

With this study, we provide a more fine-grained assessment of CSR's impact on firm performance. In line with previous studies, we find evidence of a positive effect on CFP brought about by high levels of CSR (e.g., Rodríguez and Cruz, 2007; Lee and Park, 2009; Garay and Font, 2012; Lee et al., 2013b; Theodoulidis et al., 2017). In addition, we argue that a U-shaped relationship is appropriate to describe the CSR-CFP relationship, where weak results in CSR are associated to negative...

Declaration of Competing Interest

None....

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