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Corporate social responsibility in the hospitality and tourism industry: Do family control and financial condition matter?

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ABSTRACT

Family firms have been known to perform better both financially and socially (CSR) than their nonfamily counterparts. However, it is not known whether the better social performance is a consequence of better financial performance. Within the hospitality and tourism industry, we find that family firms are financially stronger, but do not actually invest more in CSR than nonfamily firms once controlled for their financial condition, as measured by credit ratings. Interestingly, we also find that family firms invest more in mitigating concerns than in taking positive initiatives to build strengths in CSR performance. Finally, we find that judicious investment by family firms in CSR positively affects their future financial performance.

1. Introduction

Research in the finance and management literature finds that publicly traded family firms generally exhibit stronger financial performance than nonfamily firms (Anderson and Reeb, 2003; Van Essen et al., 2010; Villalonga and Amit, 2006). Other studies have found that family firms are rated higher than nonfamily firms in terms of their corporate social performance (Dyer and Whetten, 2006). Although the debate regarding whether financial performance leads to better social performance, the slack resources theory (Waddock and Graves, 1997), or whether better social performance leads to better financial performance, the instrumental theory or the doing well by doing good, hypothesis (Donaldson and Preston, 1995) is not resolved in family or nonfamily firms, it has not hitherto been examined in the context of hospitality related firms to the best of our knowledge.

This gap in the literature is surprising because hospitality is an important service industry that has several large and well-known family controlled firms like Marriott, Hilton, Hyatt, Wynn, Carnival Cruises, etc. (Getz et al., 2004). While studies that have explored CSR in the hospitality industry (Lee and Heo, 2009; Lee and Park, 2009) have focused on issues like CSR and customer satisfaction in hotels and restaurants, and CSR and financial goals of casinos and hotels, they have not examined the relationship between ownership, CSR, and financial performance. A recent study by Paek et al. (2013) examines the role of managerial ownership and stakeholder management in hospitality firms, but it stops short of exploring the impact on the financial condition or the performance of the firm. Therefore, in this paper, we evaluate the ownership effect (family vs. nonfamily firms) and the financial condition effect (credit rating) to answer three related questions about CSR in the HT industry.

Based on the multiple logics of reputation, identity, and long-term orientation in family firms (Dyer and Whetten, 2006), we first examine whether HT family firms have greater investment in CSR than nonfamily firms. We then use a more nuanced approach and study whether or not the investment in CSR by family firms is dependent on their financial condition, given that while a long-term orientation is important to family firms, immediate short-term survival will take precedence in case of deterioration of financial slack (Le Breton-Miller and Miller, 2011; Lumpkin and Brigham, 2011). We further explore whether, controlled for financial condition, family firms truly invest more in CSR initiatives than nonfamily firms. Finally, we extend our analysis to examine the causality between CSR and financial performance, and attempt to comment on the "doing well by doing good" hypothesis (Orlitzky et al., 2003). While there are no universal definitions, in this paper, CSR is conceptualized as a set of voluntary activities in the environmental, social, and governance areas that are integrated into the business activities of the firm, thus adhering to the triple bottom line approach that incorporates people, profit, and planet into corporate level decision-making.

We make several contributions to the literature. First, we note that scholars have recognized the importance of corporate social responsibility in the hospitality and tourism (HT) industry and its impact on financial and operational performance (Garay and Font, 2012; Lee and Park, 2009; Lee et al., 2012) and therefore evaluate investment in CSR by family and nonfamily firms where family ownership is particularly important. Secondly, while it is known

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that macro-economic conditions impact CSR investments in the hospitality industry (Lee et al., 2012), the impact of firm idiosyncratic financial condition is not known and is thus examined in this paper. Moreover, by introducing the use of credit ratings of the firm to evaluate firm financial condition a commonly accepted measure in the general literature but new to the hospitality literature, we bring our measures in line with the broader literature. A firm's credit rating incorporates numerous accounting and financial factors but most importantly it estimates a firm's expected future performance, which is critical in determining a firm's financial condition. Finally, we aggregate all KLD indicators to construct a single CSR measure that represents all aspects of CSR potentially providing a better connection between CSR, the firm, and its performance. While separate dimensions of CSR may have differential impacts on aspects of firm outcomes, we believe that when firm performance and organization slack are measured, an aggregate measure that provides a comprehensive score is more useful, and this measure can be used in future research on CSR and firm performance.

In the following sections, we develop our hypotheses using several theoretical lenses, describe our methodology, report and discuss our results and finally conclude our paper with implications for future research and practice.

2. Hypotheses

2.1. Family firms and CSR in hospitality

While a positive corporate image is important to all firms in the formation of consumer perceptions and choice, it becomes especially important to firms operating in service industries like hospitality and tourism. Consumers make purchase decisions about a product or service based on the entirety of its attributes or characteristics (Lancaster, 1966), weighted in accordance with personal preferences and values. Whereas product quality can be determined somewhat objectively, service quality is subjective and is greatly influenced by consumer *perceptions* (Parasuraman et al., 1985), which are influenced by expectations and image of the service provider, especially if the services are personally experienced. For example, it is likely that the service quality of a hotel experience may depend more upon consumer perceptions than service quality of an oil change or a dry cleaning service. If consumers care about CSR and are even willing to pay more for such services, like in the hospitality industry (Kang et al., 2012; Mohr and Webb, 2005), it becomes an important predictor of reputation and of consumer attitudes toward the service provider (Walker and Kent, 2009). Recognizing the value and virtues of CSR in motivating employees, who are arguably their most important resource and who in turn affect important outcomes like customer satisfaction, hospitality firms not only undertake several CSR actions but also communicate them to various stakeholders (Sen et al., 2006; Holcomb et al., 2007).

Similarly, when founding families own and or control the strategic direction of the firm, as in family firms, they recognize the salience of CSR because the family identifies with the firm and is concerned about its reputation (Ashforth and Mael, 1989). As a result, stakeholder engagement with employees, customers, suppliers, environment, and community assume special importance (Miller and Le Breton-Miller, 2005). Lumpkin and Brigham (2011) argue that family firms have a long-term orientation which manifests itself in several aspects. Consistent with the long-term orientation and concern for corporate reputation, controlling families have a strong incentive to ensure the long-term success and vitality of their firms because not only are they connected with their firms socially, emotionally, and economically, but they desire to preserve and bequeath the firm to their descendants to ensure passing on their legacy. In fact transgenerational succession and resultant long-term orientation is an important characteristic that delineates family firms from nonfamily firms (Chrisman et al., 2005). Agency costs in nonfamily firms give rise to a short time horizon, and investment in personal assets for short-term benefits (Paek et al., 2013; Jensen and Meckling, 1976). Thus, we hypothesize that family firms in the HT industry will invest more in CSR than nonfamily firms.

H1. HT Family firms will have better financial performance than nonfamily firms.

2.2. Financial condition and implications for CSR in family firms

Evidence of family firms' better financial performance compared to nonfamily firms has been reported using accounting, operating and market measures in large firms (Van Essen et al., 2010); in S&P 500 (Anderson and Reeb, 2003), Fortune 500 (Villalonga and Amit, 2006), and Business Week 1000 (McConaughy et al., 1998), but not necessarily for small public firms. While this evidence is strong, the reasons for the superior performance are still being debated (Singal and Singal, 2011). Several unique features of family firms like lower agency costs due to the non-duality in the manager–agent relationship, lower transactions costs due to trust within the firm (Gedajlovic and Carney, 2010), the availability of unique social, human and financial capital (Sirmon and Hitt, 2003), the socio-emotional wealth tied to the firm (Gomez-Mejia et al., 2007), along with a stewardship orientation (Zahra et al., 2004) are contributing factors. Based on the above, we hypothesize that family firms in the HT industry will also perform better than nonfamily firms.

H2. HT Family firms will have better financial performance than nonfamily firms.

Continuing with hypothesis 2, we evaluate whether the superior financial performance of family firms causes the hypothesized greater investment in CSR by family firms (hypothesis 1). As discussed above, there are several reasons why organizations, especially family firms, invest in CSR including building corporate image, enhancing employee loyalty, influencing customer perceptions, fostering long-term community growth, encouraging innovation and investment in the future (Dyer and Whetten, 2006). Financial slack, which is generally associated with financial performance is known to affect discretionary expenditures like CSR initiatives. Lee et al. (2012) find that recessions negatively affect discretionary expenditures with regard to CSR and constrain investment in non-operations related CSR expenditures. Similarly, at the firm level, prior financial performance used as a proxy for financial slack positively influences future investment in CSR (McGuire et al., 1988; Waddock and Graves, 1997). Though there is limited work within the HT industry on financial slack and CSR (Garay and Font, 2012), we expect prior financial performance to be an important determinant of CSR based on research in the broader economy.

At the same time that family firms are incentivized positively toward CSR due to the owners' heavy financial and emotional stake in the firm, they are also parsimonious in their use of resources (Carney, 2005). Due to lower agency costs and survivability capital (Sirmon and Hitt, 2003), family firms will be judicious in discretionary expenses like CSR especially when they are financially constrained or need a temporary competitive advantage. We believe that given similar financially slack resources, family firms may roll back on CSR initiatives to compete aggressively in the marketplace due to their strong survival goals as compared to nonfamily firms. Therefore, we hypothesize that, controlled for financial condition, family firms will not be different from nonfamily firms in CSR investment. Thus,