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# Does managerial ownership affect different corporate social responsibility dimensions? An empirical examination of U.S. publicly traded hospitality firms

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ABSTRACT

This study examines the relationship between managerial ownership and different dimensions of corporate social responsibility (CSR) in the hospitality industry. In particular, the study investigates the relationships between levels of ownership shares by managers and the CSR performances in five subdimensions, using panel data of the publicly traded hotel, restaurant, and casino firms in the U.S. The study relies on the two-way fixed-effects model using clustered robust standard errors. In addition, considering the potential simultaneous relationship between managerial ownership and CSR dimensions, which will cause an endogeneity problem, this study employs instrumental variables to test the existence of endogeneity and conduct the two-stage-least-squares method. However, by failing the weak identification test of the instrumental variables, the study accepts the results of two-way fixed-effects model, not those of the two-stage-least-squares method. The results indicate that managerial ownership has a significant negative relationship with employee relations and a weak negative one with diversity dimensions, while having an insignificant impact on the community, environment, and product dimensions.



## 1. Introduction

Corporate social responsibility (CSR) has recently received a substantial amount of attention by all related bodies in the business world (Carroll, 2004; Griffin and Mahon, 1997; Lee, 2009; Vogel, 2005; Porter and Kramer, 2006). The increasing attention given to CSR may reflect that CSR has become an essential element for a firm's success and often provides considerable benefits to the company. Therefore, when firms engage in CSR, managers and equity owners of the firms may have some motivations toward potential benefits.

Corporate governance literature has emphasized the managerial ownership as an incentive for managers to act for the interests of equity owners. Manager owners are both managers and owners, acting more like one or the other based on their stock ownership level. In other words, the more ownership they have, the more likely they are to act from an owner's perspective. A similar argument applies to pursuing different dimensions of CSR in that equity owners present different levels of interest in certain CSR dimensions compared to managers. Managers and equity owners have different interests and priorities within a firm. Anderson et al. (2003) argued that dominant shareholders have an interest in their firm's long-term sustainability; as such, they strive to maintain the firm's reputation in the public to achieve the goal.

On the other hand, corporate managers may have somewhat different interests. As a hired individual competing within an internal labor market, they need to prove their own performance by, for example, contributing to firm performance and handling organizational issues such as staffing or external stakeholder management (Lazear and Rosen, 1981; Lazear, 1989). In addition, managers have a desire to build their personal assets within a firm, such as personal power, reputation, and support from their colleagues (Blair and Stout, 1999; Ferris et al., 2007). Based on this notion, we propose that these two parties would have different levels of motivations for and interests in the various dimensions of CSR. More specifically, this study hypothesizes that corporate managers might be more interested in employee-related CSR dimensions, which would increase their personal assets within an organization according to the internal labor market argument. This view may also align with some critics about many corporations' social responsibility strategies that often such CSR strategy is more for the company's interests (or managers' interests in our argument) rather than for 'true commitment to good causes' (Bohdanowicz and Zientara, 2012, p. 98) with genuine intention (Esrock and Leichty, 1998; Jenkins and Yakovleva, 2006; Rodriguez et al., 2006). In fact, Oh et al. (2011) found a negative effect of managerial ownership on the total level of CSR investment, but

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the effect on different dimensions of CSR has not been investigated.

In recent years, hospitality companies have participated in CSR practices extensively due to the fact that hospitality firms need to pay considerable attention to their important stakeholders such as employees and the community because their successes are derived from successful relationships with these stakeholders (Byrd et al., 2009; Robson and Robson, 1996). Consequently, the hospitality literature has widely investigated various CSR issues, especially during the past decade (for example, Ham and Lee, 2011; Kang et al., 2010; Lee and Park, 2009; Nicolau, 2008; Rodriguez and Cruz, 2007). However, although CSR has been highlighted as an important research topic in the hospitality literature, CSR connected to stakeholder management has rarely been scrutinized (Inoue and Lee, 2011). In addition, none of studies have examined the relationship between managerial ownership and different CSR dimensions even in the general management literature. Considering that CSR is the result of a multifaceted mechanism and closely associated with stakeholder management, researching the multiple dimensions of CSR in a stakeholder management view would advance the literature. In addition, the different CSR focuses of manager owners according to their managerial ownership level would provide important insights for understanding their multilevel stakeholder management.

Therefore, given the importance of the topic and the gap in the literature, this study attempts to examine how the degree of managerial ownership impacts firms' investments in five CSR dimensions (i.e., employee relations, diversity, the community, the environment, and product dimensions) in the U.S. hospitality industry, including hotels, restaurants, and casinos. In addition, when investigating the relationship between managerial ownership and CSR dimensions, this study tests whether or not a simultaneous relationship exist between these two constructs, as suggested by some previous CSR literature (Graves and Waddock, 1994; Johnson and Greening, 1999). The study uses the two-stage-least-squares (2SLS) method to control for the simultaneity when such a relationship is identified.

## 2. Theoretical framework and hypotheses

### 2.1. Multifaceted dimensions of CSR

CSR, as a broad concept, has various meanings attached to it and, consequently, includes diverse dimensions. Accordingly, the literature has suggested various approaches to address these issues as well as suggesting the link between CSR and society. An integrational approach indicates that corporations and society can be integrated into and supported by each other in a win-win approach (Porter and Kramer, 2006). A relational approach argues that, with CSR practices, a firm satisfies external and internal stakeholders including society, governmental and non-governmental organizations, customers, suppliers, and employees by establishing a constructive relationship with them and further achieving good reputations and other potential merits (Porter and Kramer, 2006; Vogel, 2005). An ethical approach is dominant as well, suggesting that CSR is based on a corporation's moral attitudes and obligations (Carroll, 1979; Reidenbach and Robin, 1991). Considering these various approaches to CSR, the stakeholder framework indicates the need to address the multidimensionality of CSR.

Since the concept first emerged in the 1980s, the stakeholder approach has built a framework that a company needs to manage the multiple groups and relationships "who are affected by or can affect the achievement of an organization's objectives" (Freeman, 1984, p. 5). The stakeholder approach has been extensively adopted by many scholars in researching various CSR topics. Many CSR studies adopting the stakeholder framework have utilized the Kinder, Lydenberg, Domini, and Company (KLD) data that provide information about various different CSR dimensions related to the CSR concept (Kacperczyk, 2009; KLD, 2006; Velaz et al., 2007). The commonly identified key CSR dimensions are employees, minorities and diversity, the community, the natural environment, and customers/product safety and quality. This stream of CSR literature examined the multiple dimensions of CSR and their effects, reporting that different dimensions of CSR have different effects and consequences (e.g., Kacperczyk, 2009; Velaz et al., 2007).

As CSR is multi-dimensional, the benefits of CSR linked with corporate management are diversified accordingly, implying that CSR investments in different dimensions targeting different stakeholders bring about different benefits. One of the most arguable advantages of CSR is a firm's financial performance (Griffin and Mahon, 1997; McWilliams and Siegel, 2000). Many studies have examined the overall positive relationship between CSR and corporate financial performance (Griffin and Mahon, 1997; Orlitzky et al., 2003), although some researchers argue that no such relationship exists (McWilliams and Siegel, 2000), that a negative relationship exists (Vance, 1975), or that an inconclusive relationship exists between CSR and corporate performance (Gilley et al., 2000). In addition to financial performance, other benefits presented include human resource management, product-related, reputational, and risk management advantages. The most often-cited benefits related to human resources are improved employee attraction, motivation, morale, job satisfaction and retention, improved teamwork, and thus reduced recruitment and training costs (Zappala, 2004) which has clear implications on a firm's profitability (Tuffrey, 2003). Considering the importance of employee retention due to high turnover in the hospitality industry, it is conjectured that hospitality managers should maintain a reasonable amount of investment in employee-related CSR activities.

Regarding product-related advantages, CSR helps a firm gain new valuable product opportunities, such as new markets and product development (Goldstein, 2002). In addition, CSR can affect marketing practices by improving corporate reputation, brand image, and customer relationship and loyalty. Moreover, CSR contributes to a firm's risk reduction and management by satisfying the expectation of external audiences and preparing for possible future risks (Vogel, 2005).

### 2.2. Manager owners

Manager owners are executives or directors of a company who own stock ownership. The topic of managerial ownership has been highlighted in the corporate governance field based on the argument that the managerial ownership structure is a major influential factor associated with management efficiency. In particular, managerial ownership has been an important research focus related to corporate financial performance; it has been suggested as a positive incentive to reduce agency conflicts between shareholders and managers by aligning the interests of both parties. The concept of bonding high managerial equity holdings and managerial actions to shareholder interests has been supported in many studies (Jensen and Murphy, 1990). Indeed, a number of studies have proposed that managers' ownership level is an indication of the value of a firm; high ownership conveys the message of the high value of the firm (Leland and Pyle, 1977). In fact, companies often require top managers to own a certain amount of company stock, and many firms also restrict the selling of shares held by top management in favor of other shareholders' interests (Bhagat et al., 1985). Moreover, the agency argument is supported by managers' capital expenditure patterns. Managers who have a small ownership percentage tend to use higher internal cash flow than the level that maximizes shareholders' wealth. On the other hand, managers