International Journal of Hospitality Management 29 (2010) 72–82

Contents lists available at ScienceDirect

International Journal of Hospitality Management

journal homepage: www.elsevier.com/locate/ijhosman

Impacts of positive and negative corporate social responsibility activities on company performance in the hospitality industry

Kyung Ho Kang[a,*], Seoki Lee[b,1], Chang Huh[c,2]

[a] School of Tourism and Hospitality Management, Temple University, 1700 North Broad St., Suite 201, Philadelphia, PA 19122, United States
[b] School of Tourism and Hospitality Management, Temple University, 1700 North Broad St., Suite 201-F, Philadelphia, PA 19122, United States
[c] College of Hospitality and Tourism Management, Niagara University, St. Vincent's Hall, Room 304, NY 14109, United States

ARTICLE INFO

Keywords:
Corporate social responsibility
Hospitality industry
Financial performance

ABSTRACT

In spite of growing concern for corporate social responsibility (CSR) in various industries including the hospitality industry, the relationship between CSR activities and financial performance is a rarely examined subject in the hospitality context. Especially, research measuring the separate impacts of positive and negative CSR activities on companies' financial performances remains, as yet, unconsidered. Thus, this study examines different impacts of positive and negative CSR activities on financial performance of hotel, casino, restaurant and airline companies, theoretically based on positivity and negativity effects. Findings suggest mixed results across different industries and will contribute to companies' appropriate strategic decision-making for CSR activities by providing more precise information regarding the impacts of each directional CSR activity on financial performance.

1. Introduction

With a growing concern for corporate social responsibility (CSR), leading companies in various industries, driven by companies' stakeholders, consumers, societies and governments, are accelerating initiatives to demonstrate their CSR commitments. For example, General Electric initiated "Ecomagination" (a neologism combining ecology with imagination) as its strategic key word (Business Wire, 2005) and ever since has continued to prepare extensive reports on environmental issues. HSBC, a leader in global banking, announced a carbon neutral initiative, showing its commitment to CSR for climate change problems (BBC News, 2004), while in 2008, Wal-Mart launched its new jewelry line called "Love, Earth" in which Wal-Mart only uses gold, silver and diamonds from mines and manufacturers that meet sustainability standards established by Wal-Mart (Fibre2fashion, 2008).

Along with this general trend of public and corporate attention to CSR issues, the hospitality industry has indicated an ever increasing interest in CSR. For example, the number of CSR and environmental news items on a hospitality industry web site, Hospitality Net,[3] increased from 63 in 1999 to 139 in 2007 with 10.4% compound annual growth rate while the number of overall news increased with just a 2.8% compound annual growth rate. More leading hospitality companies, including Hilton, Starwood, Choice Hotels, Starbucks and McDonald's, exclusively provide CSR-related reports. Also, at the 2008 Democratic National Convention in Denver, sustainable and eco-friendly wood key cards debuted at hotels, and following the International Air Transport Association's recognition of airline business' social, economic and environmental influences (International Air Transport Association, n.d.), airlines including British Airways, SAS Group, Cathay Pacific and Dragonair launched carbon-offsetting programs to help fund environmental projects (Air Transport Action Group, n.d.; Armstrong, 2008; Kjelaggard, 2007).

In spite of rising interest in CSR and vigorous participation in CSR activities in the hospitality industry, only a few studies have been done on the impacts of these activities on financial performance (for example, Lee and Park, 2009; García and Armas, 2007). Moreover, despite the significant industry effect reported by the CSR literature (Amato and Amato, 2007; Banerjee et al., 2003; Brammer and Millington, 2005; Sweeny and Coughlan, 2008), comparative research across industries in the hospitality field has been rarely conducted. While Lee and Park (2009) examined impacts of CSR activities on U.S. hotels' and casinos' financial performances, their study measured CSR activities as an aggregate

* Corresponding author. Tel.: +1 215 204 5612; fax: +1 215 204 8705.
E-mail addresses: kyung.ho.kang@temple.edu (K.H. Kang), seokilee@temple.edu (S. Lee), chuh@niagara.edu (C. Huh).
[1] Tel.: +1 215 204 0543; fax: +1 215 204 8705.
[2] Tel.: +1 716 286 8223; fax: +1 716 286 8277.

[3] Retrieved September 2, 2008, from www.hospitalitynet.org.

0278-4319/$ – see front matter © 2009 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ijhm.2009.05.006

activity, not differentiating impacts of positive and negative CSR activities. This treatment may be problematic according to the positivity and negativity effects arguing that magnitudes of impacts from positive and negative activities can be different.

The purpose of this study, therefore, is to examine the separate impacts of positive and negative CSR activities of each hospitality industry (hotel, casinos, restaurant and airline industry) on both profitability (short-term performance) and firm value (long-term performance). Theoretical backgrounds justifying examining separate impacts of each directional CSR activity are positivity effect and negativity effect which have been studied in social science, including psychology and applied to management fields such as marketing (more detailed review is provided in Section 2.2).

Findings of this study are expected to contribute not only to the existing CSR literature, but also to management in hospitality firms by providing strategic insight for CSR's beneficial impact on increasing firm value by taking into account legitimate stakeholders. More specifically, this study aims to contribute to hospitality firms' strategic decision-making processes by helping to predict the varying impacts of positive and negative CSR activities on financial performance in their respective industries, and thereby help to develop more appropriate CSR strategies. For example, if the study results confirm the positivity effect in hotel industry, the primary action for hotels should be taken to increase positive CSR activities rather than reduce negative CSR activities, while if the negativity effect holds, firms should first focus on reducing negative CSR activities, then move on increasing positive CSR activities. Otherwise, by just enhancing or eliminating CRS activities as a whole, firms may sacrifice valuable opportunities for reaping rewards from more precise decisions.

The study next reviews relevant literature, followed by methodology and data. Results and discussion are provided, and limitations and suggestions for future research conclude the study.

2. Literature review

2.1. CSR and financial performance

A modern concept of CSR has evolved since the 1950s, formalized in the 1960s and proliferated in the 1970s (Carroll, 1999). Based on various studies from the CSR literature (Carroll, 1999; Engardio et al., 2007; Hart, 1995; Holme and Watts, 2000; McWilliams and Siegel, 2001; Nicolau, 2008; Tsoutsoura, 2004), CSR can be broadly defined as the activities making companies good citizens who contribute to society's welfare beyond their own self interests. Throughout the past several decades, numerous aspects of CSR have been the subject of investigation in academic and business literature, and according to the framework of Schwartz and Carroll (2003), economic, legal and ethical domains can be epitomized as the most common components of CSR.

One aspect of CSR interesting to many financial economists is the economic domain: financial impact of CSR for profit-seeking corporations. Regarding the relationship between companies' CSR activities and their performances (especially, financial performance), the literature presents three assertions.

The first group of researchers, based on the viewpoint of Friedman (1970), has found a negative relationship between CSR activities and financial performance as measured by, for example, stock price changes (Vance, 1975), excess return (Wright and Ferris, 1997), or analysts' earnings-per-share forecasts (Cordeiro and Sarkis, 1997). Friedman argued that managements are selected by the stockholders as agents and their sole responsibility is acting on behalf of the principals' best interests. From Friedman's perspective, the one and only social responsibility of business is to use its resources and engage in activities designed to increase profits and wealth of owners. Any other activities disturbing the optimal allocation of scarce resources to alternative uses exert an adverse influence on firm performance.

The second group argued for positive impact from companies' CRS activities on financial performance (Aragón-Correa et al., 2008; Bird et al., 2007; Bragdon and Marlin, 1972; Grave and Waddock, 1994; Hart and Ahuja, 1996; Heinze, 1976; Judge and Douglas, 1998; Klassen and McLaughlin, 1996; Nicolau, 2008; Orlitzky et al., 2003; Pava and Krusz, 1996; Preston and O'Bannon, 1997; Russo and Fouts, 1997; Sturdivant and Ginter, 1977; Waddock and Grave, 1997). This group's assertion, based on stakeholder theory (Freeman, 1984), suggests that firms expand the scope of consideration in their decision-making and activities beyond shareholders to several other constituencies with interests, such as customers, employees, suppliers and communities. The second group asserts that CSR activities, which encompass all legitimate stakeholders' implicit claims as stakeholder theory suggests, can improve firm value by (1) immediate cost saving, (2) enhancement of firm reputation, and (3) dissuasion of future action by regulatory bodies including governments which might impose significant costs on the firm (Bird et al., 2007).

A third group has supported no particular relationship between CSR activities and financial performance (Abbott and Monsen, 1979; Alexander and Buchholz, 1978; Aupperle et al., 1985; Teoh et al., 1999), partially arguing for the existence of too many confounding factors for researchers to uncover a particular impact from CSR on firm performance.

Seemingly contradictory themes between Friedman's (1970) viewpoint and the stakeholder theory arise from the assumption that CSR, which considers the interests of a broad spectrum of stakeholders (suggested by stakeholder theory), is in fact detrimental to value maximization activities of the firm (asserted by Friedman's viewpoint). However, Jensen (2001) attempted to reconcile the potential conflict between these two viewpoints by proposing enlightened stakeholder theory, which asserts that a firm cannot maximize its long-term value if it ignores the interests of diverse stakeholders. And, according to Post et al. (2002), a firm's capacity that generates sustainable wealth over time and its long-term value are determined by the relationship with both internal and external stakeholders. CSR, if it contributes to enhancing firm value, can be an appropriate corporate strategy as the stakeholder theory suggests, not an exploitation of shareholders' wealth to benefit other parties, as Friedman (1970) worried.

In the hospitality industry, examination of CSR activities' impacts on financial performance seems insufficient, considering the industry's growing interest in CRS and firms' massive commitments. Kirk (1995) studied hotel environmental policies and activities in the U.K. by employing a survey method, and concluded that the hotel industry reacted to environmental issues only for direct financial rewards (e.g., energy and waste management) and governmental requirements. However, Kirk's study focused only on the environmental issue, and did not attempt to specifically relate hotels' actual environmental activities to their financial performances. In a recent study, García and Armas (2007) found a positive relationship between hotel companies' CSR activities and return on assets (ROA). However, in measuring CSR activities, they collected data based on managers' opinions, which might be biased, reflecting lower construct validity. Nicolau (2008) employed an event study that examined abnormal returns (ARs) of two Spanish hotels with 26 CSR-related announcements during the 1996–2006 period. The study found positive ARs and concluded that CSR is considered value-added to hotel firms. Another study (Lee and Park, 2009) measured impacts of CRS activities separately for hotel and casino companies in terms of profitability (ROE and