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Corporate social responsibility in cruising: Using materiality analysis to create shared value

Xavier Font [a, *], Mireia Guix [b], Ma Jesús Bonilla-Priego [c]

[a] International Centre for Research in Events, Tourism and Hospitality, School of Events, Tourism & Hospitality, Leeds Beckett University, Leeds, UK
[b] Research Group in Tourism, Hospitality and Mobilities, School of Tourism and Hospitality Management Sant Ignasi, Ramon Llull University, Barcelona, Spain
[c] Departamento de Economía Financiera y Contabilidad I, Facultad de Ciencias Jurídicas y Sociales Universidad Rey Juan Carlos, Madrid, Spain

HIGHLIGHTS

- Materiality analysis facilitates strategic corporate social responsibility.
- Stakeholder engagement is needed to create shared value.
- Cruise reports respond to internal stakeholder concerns.
- Cruise external stakeholders prioritise social issues.

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ABSTRACT

Creating Shared Value hinges on the interdependence between a company's success and social welfare, and also the identification and expansion of connections between that company and society. Because critics say the concept is counterproductive, in that it focuses too narrowly on the company's economic value creation, we take a materiality analysis approach of corporate social responsibility (CSR). This approach provides evidence of what is important to stakeholders and promotes meaningful corporate disclosure, central to the Global Reporting Initiative. This study reports on a materiality analysis of the cruise industry, comparing stakeholder concerns/demands with both the relevant literature and existing CSR reports to determine to what extent the current industry definition of its social responsibility matches the expectations of its stakeholders, and subsequently, to theorise reasons for the patterns found. Results evidence that cruise companies tend to both over-report immaterial issues and under-report material issues, without responding to stakeholders' requests.

1. Introduction

The responsibilities of businesses towards society and the environment we live within are defined by the economic, legal, ethical and discretionary expectations that society has of organisations at a given point in time (Carroll, 1999; Carroll & Shabana, 2010). Corporate Social Responsibility CSR is therefore dynamic; shifting in line with environmental and social changes, external demands and the moral maturity of the organisations themselves. Demands come in the form of expectations from stakeholders who also experience the effects of corporate behaviour and evaluate the fit of corporate performance with their expectations (Wood & Jones, 1995).

Organisations have come to recognise the need to identify the expectations and concerns of a wide group of stakeholders in order to define an approach for meeting those expectations. In so doing, the companies can move towards sustainable development, rather than limiting their approaches to the resolution of specific conflicts. The stakeholder engagement process allows the companies to identify the relevant and material issues for their stakeholders, which are vital for a company to drive its strategy and create value with society; the process indicates the information needed by the stakeholders to judge the organisation's performance. CSR practicing and reporting are inextricably intertwined and "cannot be understood in isolation of each other or the organisational functions and operations on which they impinge" (Adams, 2008).

* Corresponding author.
E-mail address: x.font@leedsmet.ac.uk (X. Font).

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However, the information is not necessarily material because there is Little evidence that stakeholders are being genuinely engaged because there is (Manetti, 2011; Unerman, 2007). This is why materiality analysis has been placed at the centre of the Global Reporting Initiative (GRI) G4 sustainability reporting guidelines.

This research undertakes a materiality analysis of the cruise industry comparing stakeholders' concerns/demands with both the relevant literature and cruise industry CSR reports firstly, to determine to what extent the current industry definition of its social responsibility matches the expectations of its stakeholders and secondly, to understand the reasons for any patterns found.

2. The reasons for materiality analysis

The need to ensure that CSR practices are material to stakeholders, and that those stakeholders are engaged in shaping and delivering the CSR practices of any given firm, is not new. In line with the firm's CSR strategy, the range of stakeholders to be taken into consideration, and the dialogue and attitudes towards them, will be directly dependent upon its motives for engagement in CSR and its social and environmental reporting. Sustainability reporting "is a process that assists organisations in setting goals, measuring performance and managing change towards a sustainable global economy – one that combines long term profitability with social responsibility and environmental care" (GRI, 2013a:85). It is a platform for the external accounting of economic, environmental, social and governance impacts and how the organisation is taking responsibility for continuous improvement. Sustainability reporting complements financial accounting and provides a complete view of a company's performance and value creation (Murninghan, 2013; SASB, 2013). The existing literature uses four alternative frameworks to explain the reasons for CSR engagement, which help explain the shift towards more material CSR practices, and consequently communication.

The first theory, reputation and risk management, is based on the avoidance of factors that can negatively influence corporate brands, thus avoiding public relations scandals (Bebbington, Larrinaga, & Moneva, 2008). The theory relies on the use of sustainability reports to restore a positive image of the firm and recognises the importance of transparency to reputation (Adams, 2008). The second provides a resource-based view of the firm and suggests that companies act responsibly to maximise their competitive advantage in a way that cannot be imitated easily by competitors (Russo & Fouts, 1997), although this traditional form of value creation focuses on short term profits, not on a holistic view (Porter & Kramer, 2011). These two reasons would respond to what Porter and Kramer (2006) call "responsive CSR" i.e. addressing generic social issues and value chain impacts with an inward, often short term, focus. Firms following these reasons would engage in shallow stakeholder engagement such as posturing, and any so-called materiality analysis would be "an end-of-pipe filter to help produce more streamlined and useful annual sustainability reports" (Account Ability, 2006: 29) to reduce corporate risks from CSR reporting. The third framework for CSR engagement is that of stakeholder theory, which argues that corporations act in response to stakeholder requests, either in a preventive or a proactive way (Wood, 1991). The level of proactivity would define whether this third approach is also responsive or more strategic. Sustainability reporting then becomes a channel to cater to the information needs of different stakeholder groups by explaining how the company addresses their expectations. The move towards more inclusively addressing the value chain and the competitive context by transforming value chain activities to benefit society is "strategic CSR" that Creates Shared Value. Finally, Creating Shared Value (CSV) explains engagement for the purpose of value creation and product differentiation. This should combine a respectful and proactive attitude towards stakeholders and provide success and creation of value (Porter & Kramer, 2006; Wheeler, Colbert, & Freeman, 2003). Strategic CSR is corporate strategy integrated with the core business objectives and competencies to create triple bottom line returns, a driver for innovation and economic growth. Porter and Kramer (2006) predict a necessary move from CSR to CSV, as social responsibility moves from damage control or public relations campaigning to building shared value between society and business. CSV should "supersede CSR in guiding the investment of companies in their communities" (Porter & Kramer, 2011:76) because it is businesses' best chance at restoring legitimacy, increase trust and reputation (Farache & Perks, 2010; Leavy, 2012; Porter & Kramer, 2006).

The principle of CSV focuses on "identifying and expanding the connections between social and economic progress" (Porter & Kramer, 2011:66). This is characterised by policies and operating procedures that enhance competitive positioning, while simultaneously advancing the economic and social conditions of the communities within which the company operates (Jonikas, 2013; Maltz & Schein, 2012; Pfitzer, Bockstette, & Stamp, 2013). Porter and Kramer (2011) stress that CSV exceeds ethical standards, law compliance and the mitigation of negative impacts caused by the business; it represents a new way of understanding customers, productivity and the external influences on a corporation's success. CSV is about expanding value through improved operational processes, not about sharing the value already created (Camilleri, 2012; Porter & Kramer, 2011).

CSV differs from CSR in how it is practised. First, re-conceiving products and markets means innovating and developing products to satisfy previously unmet needs that existed in the market before their creation (Porter, Hills, Pfitzer, Patscheke, & Hawkins, 2012). Second, CSV requires businesses to identify their positive and negative social impacts and then to re-imagine value chains and redefine productivity accordingly. Porter (1986) refers to the value chain as a tool to identify those operational issues that have an effect on both the companies' performance and the social consequences of business activities. In practice, CSV entails channelling resources for innovations to solve social problems (Pfitzer et al., 2013). Third, developing supportive clusters generates new value and is rooted in the idea that "the success of every company is affected by the supporting companies and infrastructure around it" (Porter & Kramer, 2011:77).

Nevertheless, the active pursuit of shared value requires different thinking and internal actions, such as establishing and embedding shared value within the corporate culture. This may be achieved by defining a clear social purpose, to be subsequently publicised or embedded in core processes such as strategic planning and budgeting (Pfitzer et al., 2013). Since there is a fundamental interdependence between a company's success and social welfare (Nohria & Ghoshal, 1994) the difficulty lies in balancing short-term costs against long-term externalities (Kramer, 2006).

3. Materiality analysis as a multi-purpose tool

Materiality analysis has a role to play in CSV as a tool for prioritising issues and strategic planning, allowing an integrated approach to defining a sustainability strategy and to reporting. CSV requires stakeholders to be involved in the identification of problems (Pfitzer et al., 2013) (one of the core steps of the materiality analysis methodology), as more value is created when companies diligently seek to serve the interests of a broad group of stakeholders (Freeman, 1984; Harrison & Wicks, 2013). Due to the growing relevance in the agenda of non-financial, social, environmental and governance issues, there is no way back from