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Corporate social responsibility and firm performance in the airline industry: The moderating role of oil prices

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HIGHLIGHTS

► The study found operation-related CSR positively affected firm performance.
► Findings support the positive moderating effect of oil prices on CSR in airport OR operations.
► Findings support the negative moderating effect of oil prices on Non-OR CSR dimensions.

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ABSTRACT

This study, first, proposes corporate social responsibility (CSR) dimensions as associated with operation-relatedness (i.e., operation-related [OR] and non-operation-related [Non-OR] CSR activities), following the Carroll CSR framework. In addition, the study examines and compares the effects of OR and Non-OR CSR dimensions on U.S. airlines' performances, and the final examination concerns the moderating effect of oil prices on the relationship between the OR (Non-OR) CSR dimension and firm performance. Findings of this study support a positive main effect from OR on firm performance. In addition, findings support the positive (negative) moderating effect of oil prices on the relationship between OR (Non-OR) CSR dimension.

1. Introduction

The underlying issue of this study is questioning socially responsible corporations' ability to maximize owners' wealth. Increasing concerns for corporations' broader responsibilities, beyond those to their direct owners, have only intensified the debate begun with the seminal research of Friedman (1970). Researchers have keenly investigated the link between corporate social responsibility and owners' wealth, but unfortunately, without gaining a clear consensus (Margolis, Elfenbein, & Walsh, 2007). One of the problems involved in claiming generalizable results has been the challenge of modeling firms' varied Corporate Social Responsibility (CSR) behaviors, and their effects on corporate financial performances (CFP). The CSR literature examined effects of CSR on CFP in various manners including a linear form of CSR, higher order-functional forms of CSR, and multiple dimensions of CSR.

The tourism literature also addressed the CSR topic in relation to CFP with similar approaches. Several studies, in various functional forms, investigated the effect of CSR on CFP for airlines, hotels, casinos, and restaurants (for example, Lee & Park, 2009, 2010; Nicolau, 2008; Park & Lee, 2009). Regarding sub-dimensions of CSR, Kang, Lee, and Huh (2010) examined effects of positive and negative CSR on CFP, and Inoue and Lee (2011) tested five dimensions of CSR on CFP for tourism and hospitality companies. However, as stated earlier, neither the general nor tourism CSR literature has produced or formulated a conclusive consensus, and the literature continues to encourage researchers to explore the CSR-CFP link (Campbell, 2007; Rowley & Berman, 2000).

In an attempt to enrich the CSR literature, especially for the context of the airline industry, for which empirical investigations of the CSR-CFP link are an apparent need, the current study investigates two newly proposed dimensions of CSR activities based on their relevance to operations in the airline industry: operation-related (OR) and non-operation-related (Non-OR) CSR activities,

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following the CSR framework proposed by Carroll (1991), who suggested four CSR dimensions for economic, legal, ethical and philanthropic activities, then later in 2003, modified the framework by combining the philanthropic dimension with the ethical dimension, resulting in the three-dimensional framework: economic, legal and ethical (Schwartz & Carroll, 2003). Based on Carroll's CSR framework, mainly following the two dimensions (economic and ethical), the current study proposes OR and Non-OR CSR dimensions, which are those activities that have direct or clear implications for firms' core business operations, representing much of the economic, and perhaps, some legal dimensions proposed by Carroll. OR CSR activities include improvements to product quality, employee relationships or treatment, and corporate governance. In contrast, this study defines Non-OR CSR activities as those CSR activities that firms ought to engage as ethical or responsible, societal citizens, despite a lack of direct implications for a firm's operations, closely following Carroll's ethical and possible legal applications. Such Non-OR CSR activities may include activities that promote human rights, develop community relationships, support environmental issues, and encourage diversity.

With these newly proposed CSR dimensions, the current study, first, hypothesizes that both OR and Non-OR CSR activities positively impact firms' performances according to the stakeholder theory (Freeman, 1984) and instrumental theory (Garriga & Melé, 2004). Expanding this notion, this study also proposes that the positive effect of OR CSR is greater than the effect of Non-OR CSR on firms' performances because the OR CSR dimension has a more direct relationship with airlines' operations than Non-OR CSR dimension. After examinations of the main effects of, and a comparison between, the two CSR dimensions, this study hypothesizes that oil prices moderate the positive effect of the two CSR dimensions on firms' performances. In detail, hypothetically, oil prices negatively moderate the effect of both CSR dimensions on firms' performances, due to the significant, negative impact increased oil prices impose on airlines (Clarke, 2008). From the difficulty of rising fuel costs, financial markets may perceive that airline companies' investments in CSR activities are inappropriate or deteriorate value.

Despite the fact that the airline industry has embraced the CSR phenomenon, empirical studies in academic literature for such a corporate strategy's value have been sparse, especially in the CFP context. Lee and Park (2010) produced one of a few studies, but it focused only on the aggregated CSR measure which might result in an inappropriate validity issue for CSR measurement in the construct (Mattingly & Berman, 2006). Cowper-Smith and de Grosbois (2011) provided rich findings for airlines' CSR activities by examining airlines' CSR reports, but their examination was qualitative and lacked a direct link to CFP. Moreover, considering that an industry-effect apparently exists in the CSR literature (Cottrill, 1990), an examination of the proposed hypotheses specifically for the airline industry, a homogenous group, should be able to provide more valid and relevant findings. By further incorporating the industry-specific factor (i.e., oil price) in the model, the current study's unique contributions to the literature become clear. Therefore, this study enriches the tourism CSR literature by exploring the relatively unexamined link for the industry, and the general CSR literature, in terms of CSR and CFP, by proposing newly defined dimensions of CSR and the links to CFP along with the moderating effect of oil prices.

This study performs a Two-Way Random-Effects Model by firm and year to accomplish its goals, by applying the model to the airline industry for the period, 1991 to 2009 and using KLD STATS (further information appears in Section 4.2, the Main Variables Section) for CSR data, widely accepted by a majority of recent CSR-CFP studies (Mattingly & Berman, 2006).

Next, the study reviews the relevant CSR literature, and describes the methodology including the models, study variables, and data. Results and discussions follow, and the study concludes with identified limitations and suggestions for future research.

2. Literature review

2.1. Corporate social responsibility and corporate financial performance

Increasingly, many firms have begun to consider their roles in society and to attend closely to the application of social standards to their businesses (Lichtenstein, Drumwright, & Braig, 2004). Academicians have responded to this interest in corporate social responsibility (CSR) and examined its impact on corporate financial performance (CFP) at both macro-social and organizational levels (Lindgreen & Swane, 2010). CSR refers to "actions that appear to further some social good, beyond the interest of the firm and that which is required by law" (McWilliams & Siegel, 2001, p. 117). This implies that CSR investment does not particularly serve the best interests of the firm, profit maximization (McWilliams & Siegel, 2001). That is, firms may need to engage in socially responsible activities despite potential decrease in firm value (Mitchell, Agle, & Wood, 1997; Paine, 2002). Donaldson and Davis (1991) provided theoretical arguments for this view: The importance for firms' doing "the right thing" transcends the impact on CFP. Consequently, firms may confront the conflict of CSR investments not coinciding with economic objectives (Donaldson & Preston, 1995; Freeman, 1984; Mitchell et al., 1997; Paine, 2002; Wood & Jones, 1995). Therefore, identifying a positive link between CSR and CFP effectively resolves the conflict (Mackey, Mackey, & Barney, 2007).

Many scholars posited that firms can benefit from a competitive advantage created by CSR. For example, consumers reward socially responsible firms in the market by showing higher purchase intentions (Mohr & Webb, 2005) and a willingness to pay higher prices (Kang, Stein, Heo, & Lee, 2012; Laroche, Bergeron, & Barbaro-Forleo, 2001) for firms' products and services. CSR can also contribute positively to CFP by increasing product recognition (Parket & Eilbirt, 1975), enhancing employee motivation (Stodder, 1998), creating positive employee attitudes (Brammer, Millington, & Rayton, 2007; Rupp, Ganapathi, Aguilera, & Williams, 2006), and improving a firm's public image (Fombrun & Shanley, 1990). Hence, the interest in management literature for CSR has focused primarily on discovering whether or not firms can "do well by doing good" (McWilliams, Siegel, & Wright, 2006). A large number of studies empirically tested the relationship between CSR and CFP, but little consistency arose from the findings. Using different methodologies, these studies found a positive, negative, and no relationship between CSR and CFP.

First, some scholars predicted a negative impact of CSR on financial performance because CSR represents additional costs to the firm (McGuire, Sundgren, & Schneeweis, 1988; Riahi-Belkaoui, 1992; Shane & Spicer, 1983; Vance, 1975). From an agency theory perspective, Friedman (1970) asserted that CSR may cause firms to misallocate corporate resources that might otherwise increase shareholders' value. For example, managers can exploit CSR to fulfill their own personal interests such as building their careers and reputations. In addition, McGuire et al. (1988) maintained that firms incur extra costs in an effort to benefit society as a whole, and these costs often do not directly relate to firms' operations or generating profits (Lindgreen & Swane, 2010). For instance, communicating concern for social and environmental issues through advertising may enhance a firm's reputation, but provides no guarantee for immediate sales increases. A strongly supported perspective asserts that accounting-based performance does not