



Corporate social responsibility and shareholder value of restaurant firms



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ARTICLE INFO

Keywords:

Restaurant
Hospitality
Corporate social responsibility
Shareholder value
Stock returns
Systematic risk

ABSTRACT

In response to recent calls for understanding corporate social responsibility (CSR) and its influence on shareholder value, this study examined the effects of both CSR-strengthening (i.e., strengthening a firm's CSR reputation) and -concerning (i.e., potentially diminishing the reputation) activities of publicly listed restaurant firms on shareholder value. Unlike previous studies on CSR in hospitality literature that only focused on the level of stock returns, this study considered systematic risk as another important determinant of shareholder value. This study tested whether the CSR-strengthening and CSR-concerning actions of restaurant firms are associated with shareholder value based on systematic risk and Tobin's Q. CSR-strengthening actions were found to enhance shareholder value by increasing Tobin's Q, whereas CSR weakening actions reduce shareholder value by increasing the systematic risk of the firm. By analyzing the different effects of CSR-strengthening and CSR-concerning actions, this study provides interesting and important implications for hospitality literature and practitioners of restaurant firms.

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1. Introduction

Considering that various stakeholders, including consumers, investors, governments, and the community in general, pressure firms to become more responsible for the welfare of society, corporate social responsibility (CSR) has become an important issue in many industries. Firms have taken the initiative to satisfy the society's needs for clean and safe environments by developing recyclable packaging, adding additional product safety features such as airbags in automobiles, voluntarily modifying manufacturing processes to reduce pollution, and sponsoring campaigns to address social problems (Solomon et al., 2011). In response to the increasing need for CSR, the hospitality industry has also been actively involved with the issue in various ways. For example, the InterContinental Hotel Group is in partnership with the National Geographic Center for Sustainable Destinations to enrich the understanding of environmental and cultural responsibility among InterContinental associates and guests worldwide (National Geographic, 2009). Restaurant firms have also implemented environment-friendly and energy-saving business practices, such as the use of energy-efficient fuel (Elan, 2008).

However, CSR programs tend to be costly and compete for the limited financial resources of firms (Wang et al., 2008). As agents for shareholders, managers need to have a clear understanding of the financial benefits of CSR programs for shareholders who provide the capital necessary to fund CSR initiatives (King and Lenox, 2001). Thus, understanding the effects of different CSR activities on financial performance is an important issue in management.

Many previous studies have investigated the effects of CSR activities on shareholders' wealth, including several studies on hospitality management that investigated the implications of hospitality firms' CSR activities on performance (e.g., Park and Lee, 2009; Lee and Park, 2009, 2010). However, scholarly understanding of the effects of CSR activities on shareholder value in the hospitality industry remains limited and thus requires further investigation of hospitality firms' CSR initiatives and their effects on the different determinants of shareholder value.

Previous studies on CSR in the hospitality field have focused on measuring the effects of CSR only on the level of stock returns based on Tobin's Q (e.g., Kang et al., 2010; Lee and Park, 2009, 2010; Park and Lee, 2009). However, this method provides only a partial understanding of the link between CSR and shareholder value. Shareholder value is determined not only by stock returns but also by the risks associated with the returns (Kim et al., 2013). Thus, evaluating the effects of a firm's strategic actions only on stock returns without considering the risks involved may limit our understanding of the effects of such actions on the firm's

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shareholder value (Kim et al., 2013). For example, excessive CSR activities may increase the uncertainty associated with shareholders' wealth and negatively affect the value of their equity holdings.¹ This study was designed to fill this gap in our understanding of CSR in the hospitality field by examining the effects of CSR activities not only on stock returns but also on the risks associated with these returns. This study aims to provide a complete picture of the relationship between CSR and shareholder value in the restaurant industry.

This study also investigated the different effects of activities strengthening a restaurant firm's CSR reputation and those potentially diminishing the reputation on both stock returns and equity risk. Firms normally engage in both CSR-strengthening (hereafter, CSR-strengths) and concerning activities (hereafter, CSR-concerns) simultaneously (Muller and Kräussl, 2011; Strike et al., 2006). Many CSR studies addressed the extent to which a firm is socially responsible without considering its offsetting of CSR-concerns. For example, when a restaurant firm is involved in ten CSR-strengths and five CSR-concerns, its overall CSR obtains a score of five. However, another firm involved in five CSR-strengths but no CSR-concerns obtains a score of five as well. Thus, a firm's high overall CSR score does not necessarily mean that the firm engages in less CSR-concerning activities. Furthermore, simply using overall CSR in a test of CSR effects cannot differentiate the marginal effects of CSR-strengthening and CSR-concerning activities. Hence, separating negative from positive CSR activities is crucial for elucidating the relationship between a firm's CSR and its financial performance (Muller and Kräussl, 2011; Strike et al., 2006).

Despite the importance of breaking down overall CSR into strengths and concerns, most studies on the hospitality industry used only overall CSR. Kang's group has so far been the only one to study separately the effects of CSR-strengths and CSR-concerns on shareholder value in a hospitality context (Kang et al., 2010).² The use of the aggregate score of CSR activities masks the different effects of each directional CSR activities on shareholder value. Thus, breaking down overall CSR into two directional activities (i.e., strengths and concerns) for an in-depth understanding of the effects of CSR on the financial performance of firms requires further study.

This study examined the different effects of restaurant firms' CSR-strengths and CSR-concerns on shareholder value based on stock returns and the equity risk associated with these returns. The results show that overall CSR scores for restaurant firms are positively related to stock returns but not significantly associated with equity risk. The results also show that in the restaurant industry, CSR-strengths significantly increased shareholder value by improving stock returns although no significant relationship with equity risk was found. CSR-strengths in restaurant firms enhance shareholder wealth by simply increasing stock returns. CSR-concerns showed no significant relationship with restaurant firms' stock returns but significantly predicted increased equity risk for such firms. In other words, CSR-concerning activities negatively affect shareholder value but only by increasing the equity risk.

The findings of this study provide several contributions to hospitality literature. To the best of our knowledge, this study is the first to evaluate the impact of restaurant firms' CSR activities on firm equity risk, a key determinant of shareholder value. This study is also the first to investigate the different effects of CSR-strengths and CSR-concerns on both stock returns and firm equity risk. With its findings from empirical tests, this study provides

fruitful implications for hospitality literature and the practitioners in the hospitality industry.

2. Literature review

2.1. CSR and stock returns

Understanding whether and how CSR activities are capitalized is an important research topic. Funding for CSR activities comes from shareholders; thus, managers must demonstrate how CSR activities promote the interests of shareholders. Several previous studies have examined the associations between CSR actions and shareholder value in various contexts (e.g., Brown and Dacin, 1997; Godfrey, 2005; Luo and Bhattacharya, 2006, 2009).

Engaging in CSR activities increases a firm's goodwill and improves its image in the community; such will likewise increase the firm's socio-political legitimacy (Saiia et al., 2003; Wang and Qian, 2011). A favorable image enhanced by CSR activities may permeate into the product and stock market and boost the firm's financial performance and stock returns (File and Prince, 1998; Saiia et al., 2003; Godfrey, 2005). Wang et al. (2008) argued that CSR activities contribute to a firm's financial performance by encouraging stakeholders, including employees and customers, to support the firm's core business. Enhanced support from stakeholders can generate moral capital for a firm and thus increase the stakeholders' willingness to provide the firm with resources (Hall, 1992; Rindova and Fombrun, 1999).

CSR activities show that the firm is not completely self-interested and that its managers consider the effects of their decisions on others in the society (Godfrey et al., 2009). When stakeholders appreciate the firm's activities that consider the well-being of others and the community, the firm gains moral capital (Godfrey et al., 2009; Simon, 1995). "Moral capital represents the outcome of the process of assessment, evaluation, and imputation by stakeholders and communities of a firm's philanthropic activities (Godfrey, 2005, p. 783)." Moral capital helps stakeholders believe that the firm engages in socially desirable activities, which contribute to the firm's overall reputation of being a good member of society (Godfrey, 2005). A positive reputation has economic value because "consumers typically assume that the products of a reliable and honest firm will be of high quality" (McWilliams and Siegel, 2006, p. 120). It also enhances the affective commitment of other stakeholders (e.g., employees, suppliers, and partners) to the firm; that is, emotional attachment to the firm encourages employees to continue working for the firm and suppliers and partners to act favorably (Godfrey, 2005). Previous marketing research has revealed the benefits of moral capital generated by CSR activities. For example, Brown and Dacin (1997) and Luo and Bhattacharya (2006) found that CSR activity increases customer satisfaction as well as brand and customer loyalty, thereby improving firm financial performance.

In the hospitality context, Lee and Park (2010) confirmed that the overall CSR scores (i.e., scores for CSR-strengths minus scores for CSR-concerns) of airlines are positively related to their market capitalization but are not significantly related to their accounting performance (return on assets, return on equity, or return on sales). They also showed that the overall CSR scores of hotel firms are positively associated with their profitability and stock returns, while those of firms in the casino industry are not significantly related to the abovementioned performance metrics (Lee and Park, 2009). Another study on publicly listed firms in the restaurant industry found a U-shaped relationship between restaurant firms' overall CSR scores and returns on equity; this finding means that no significant relationship exists with market capitalization (Park and Lee, 2009).

¹ The terms share, equity, and stock are used interchangeably in this discussion.

² They also tested the effects of positive and negative CSR activities on accounting-based performance measures, such as return on equity and return on assets.

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