CSR and financial performance: The role of CSR awareness in the restaurant industry

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ARTICLE INFO

Article history:
Received 7 October 2015
Received in revised form 18 May 2016
Accepted 21 May 2016
Available online 7 June 2016

Keywords:
Corporate Social Responsibility (CSR)
CSR awareness
Stakeholder management
Financial performance
Social performance

ABSTRACT

Initiatives for corporate social responsibility (CSR) often have served business as a source of competitive advantage. However, despite firms’ attempts to capitalize on their CSR efforts, stakeholders’ low awareness of these initiatives makes it difficult to realize the full value of the strategic CSR. In this study, we propose and test in the context of the restaurant industry whether CSR awareness, measured by CSR media coverage, moderates the relationship between the social and financial performance. Our results support the notion that stakeholders’ CSR awareness affects the manner in which CSR initiatives can result in financial gain. Our research has implications both for firms’ investment policies in social initiatives and for highlighting the importance of communicating CSR initiatives to relevant stakeholders.

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1. Introduction

Corporate social responsibility (CSR) has become an increasing concern of business managers as companies are evaluated not only on financial, but also on social performance. While many firms undertake socially-responsible actions to gain legitimacy and a competitive advantage, firms in industries that face demand based on consumer discretionary expenditures are perhaps more prone to evaluation of CSR initiatives by consumers. In case of the restaurant industry, for example, rapidly changing purchasing decisions in response to economic sentiment (Singal, 2012) underline the importance of effective strategies to encourage repeat sales. Tactics such as price manipulation, usually in the form of discounting, despite being inevitable sometimes, have resulted in continued price wars that damage customer loyalty (Siguaw et al., 1999). CSR, on the other hand, can be effective in attracting loyal customers who often are willing to pay premiums for restaurant products (Schubert et al., 2010). According to the Technomic Report, millennials, generally including all consumers aged 20–35, are the most frequent visitors to restaurants, and their choice of the restaurant brand is based not only on food quality, but also on their perceptions of a restaurant’s socially-responsible involvement (Brandau, 2012). As a result, many restaurant companies have been involved in CSR initiatives like providing employee benefits or environmental protection. Further, CSR activities can be used to differentiate a firm from competitors in the restaurant industry where rivalry among existing firms is high. Due to relatively low entry barriers for new entrants, and low switching costs to other substitutable products, the industry is defined as extremely competitive (Singal, 2015). CSR activities helping firms build positive brand image and reputation can be a competitive advantage in the market (Gupta, 2002).

Such rewards from CSR, however, can be achieved only if stakeholders are aware of these CSR activities (McWilliams and Siegel, 2001). In other words, the strategic impact of CSR on firm performance relies not only on the firm’s efforts in CSR but also on stakeholders’ awareness of those efforts. Although companies attempt to maximize advantages from their CSR strategies, low awareness of CSR initiatives among consumers and other stakeholders undermines CSR effects on firm outcomes.

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http://dx.doi.org/10.1016/j.ijhm.2016.05.007
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In particular, little discussion on this issue has occurred in the restaurant industry, and not many restaurant companies have capitalized on their CSR efforts, due to lack of CSR awareness. Even in the case of Starbucks, relatively well-known for its CSR activities, fewer than 50% of its consumers are aware of the company’s commitments to fair trade coffee beans, implying that the brand is not fully realizing advantages from the adopted initiatives (Gibbons, 2010). Accordingly, the current study proposes that the awareness of CSR activities is critical so that company efforts in this area are made meaningful. To put the point crisply: stakeholders’ CSR awareness can gain more benefits from a firm’s CSR initiatives, thereby improving firm performance. This is of particular importance in the restaurant industry where consumers need to reduce uncertainty in purchasing experience goods. Because restaurant products and services cannot be realized before consumption and the food is closely tied to health and well-being, clearly-recognized/perceived CSR can be used to signal product quality and to influence consumer perceptions (Brown and Dacin, 1997) in the information-sensitive restaurant industry.

The purpose of the study is, therefore, to investigate the moderating role of CSR awareness, measured by CSR media coverage, on the relationship between CSR and corporate financial performance (CFP) in the restaurant context. Servaes and Tamayo (2013) pointed out an important role of CSR awareness for a firm to take advantage of its CSR efforts to increase its firm value. Results of their robustness test reveal that firms realize the benefits from positive CSR activities if they advertise; however, firms with high CSR awareness are also penalized to a greater extent when they are involved in negative CSR activities, which is consistent with this study’s argument. However, a critical distinction between their approach and our approach rests on the measurement of CSR awareness. They used advertisement intensity to measure CSR awareness whereas this study uses CSR media coverage, which can measure CSR awareness in two directions: positive and negative. This distinction is important because as much as firms can be engaged in socially responsible and irresponsible activities at the same time, media coverage can be positive and negative. We believe the use of CSR media coverage as a proxy for CSR awareness merits further discussion as we can capture positive and negative CSR awareness, respectively. This distinction in measures of CSR awareness can lead to a difference in findings and implications. With the use of the advertising intensity, Servaes and Tamayo (2013) emphasized the importance of prior CSR awareness in general as a condition under which CSR-CFP relationship occurs. The positive or negative media coverage, on the other hand, may be linked to CSR awareness that is recently created or affected by a firm’s proximate CSR activities.

This study provides several academic and practical contributions. First, by considering the moderating role of CSR awareness in the CSR-CFP relationship, the current study provides nuance to CSR literature which has inconclusive findings regarding the direction and nature of the social-financial performance relationship. Although a couple of studies have identified possible moderators in the hospitality context, they are external and not always within the control of the firm (e.g., oil price, Lee et al., 2013a and economic condition, Lee et al., 2013b). Our integrated model highlights the importance of CSR awareness, a strategy that a firm can control, at least partially, and hence help restaurant managers in developing strategies to maximize the impact of CSR on CFP. More important, this paper parses out the type of CSR awareness, i.e., whether it is positive or negative, thus differentiating dissimilar effects of CSR awareness on the CSR-CFP relationship, and providing a novel theoretical extension to the literature (Kang et al., 2010). Second, this study’s results have practical implications for firms, and restaurant companies in particular, helping managers decide when to support CSR initiatives in general and, especially, how to manage and communicate their CSR efforts to stakeholders.

2. Literature review

2.1. Theoretical background: benefits and costs of CSR

Since the 1930s, scholars have studied firms’ social performance. In line with stakeholder theory, CSR is broadly understood from distinct stakeholders’ perspectives suggesting that firms must create value not only for their shareholders but also for other stakeholders, including, customers, employees, investors, suppliers, and their communities (Freeman, 1984), and CSR activities lead firms to maintain positive relationships with their diverse stakeholders (Epstein and Roy, 2001).

By actively adopting CSR initiatives, companies garner the promise of support from different stakeholder groups, and derive reputational capital that helps build competitive advantage (Fombrun et al., 2000). For example, primary support from customers of a socially-responsible company is a positive attitude toward the company, which leads to positive product and service quality perceptions (Brown and Dacin, 1997). A growing body of research finds that some customer segments are highly loyal to products and services of socially-responsible companies, and willingly pay premium prices for those (e.g., McWilliams and Siegel, 2001). In addition, Luo and Bhattacharya (2006) find that CSR is a driver of customer satisfaction in large companies, which in turn increases the market value of these firms. The increases in economic returns show that investors also appreciate firms’ CSR efforts in the form of increased share purchase (Fombrun et al., 2000).

Reputational capital accumulated through CSR attracts and motivates internal stakeholders, e.g., employees, and alleviates risk during adverse events (Godfrey, 2005). As a result, companies with CSR achieve competitive advantages in the labor market. Based on a sample of 4712 employees drawn from a financial services company, Brammer et al. (2007) examined the CSR impact on organizational commitment, and found that along with employee perceptions of procedural justice and training, CSR initiatives contribute to employee organizational commitment. Similarly, Kim et al. (2010) highlighted the importance of CSR participation by showing its direct influence on employee-company (E-C) identification which, in turn, leads to employee commitment to their organization. Thus social performance is an effective way for companies to maintain a positive relationship with their employees, thereby reducing recruitment and training costs as well as improving job satisfaction and retention (Turban and Greening, 1997). In addition, reputational capital accumulated via CSR activities functions as a risk management tool by providing a buffer against negative publicity or skepticism when negative actions occur (Fombrun et al., 2000), and positive moral capital through CSR provides insurance-like protection especially during negative publicity (Godfrey, 2005; Lin et al., 2011).

In the context of the service industry, customers do not gauge service quality before they experience the service encounter, but company image and corporate reputation often serve as cues, hence a positive corporate image and reputation through CSR activities become especially important, including in the restaurant industry. Uncertainty inherent in purchasing service products can cause customers to look for CSR actions to reduce their risk because such actions foster trust in the firm (Nicolau, 2008). Companies with higher reputation are perceived as less risky than those with lower reputation, even when their financial performances are equivalent (Helm, 2007). In this regard, CSR activities strengthening brand image and reputation can lower the already-high risks related to operating restaurant companies. Gupta (2002) found
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