The moderating role of CEO narcissism on the relationship between uncertainty avoidance and CSR

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**Highlights**

- We examine the effect of uncertainty avoidance on corporate social responsibility in the restaurant industry.
- We find a negative relationship between uncertainty avoidance and corporate social responsibility.
- We find a positive moderating effect of CEO narcissism on the relationship between uncertainty avoidance and CSR.
- Findings provide an insight into the multinational restaurant firm's development of localized CSR portfolios.

**Abstract**

With the ever-increasing growth in the number of US multinational restaurant firms, the need for a better understanding of CSR initiatives enacted in those countries is actively gaining in importance. A firm's CSR is influenced by the cultural context of a given society and, according to the upper echelons theory, the characteristics of its corporate executives. However, there was no empirical evidence on the moderating role of CEO narcissism, a common CEO characteristic in many cases, on the national culture-CSR relationship. This study finds that a firm with more properties in high-UA societies has less involvement in CSR and that CEO narcissism positively moderates the relationship. The results provide a meaningful empirical addition to the upper echelons literature by demonstrating how CEO traits can serve as a boundary condition in examining the impact of uncertainty avoidance, as a contextual factor, on CSR, as an organizational outcome, in the restaurant industry.

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**1. Introduction**

According to the enlightened stakeholder theory, a firm's value is created in a sustainable manner when the interests of various stakeholders are considered in the decision-making process (Jensen, 2001). In this regard, corporate social responsibility (CSR), defined as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams & Siegel, 2001, p. 117), is considered a prominent form of shareholder management (Theodoulidis, Diaz, Crotto, & Rancati, 2017). In particular, the increased social and institutional pressure and the expected benefits of CSR engagement have consequently become apparent in the socially responsible business activities of restaurant firms, an essential factor of tourism (Sparks, Bowen, & Klag, 2003).

For example, Wendy's provides financial supports for organizations, such as the Dave Thomas Foundation for Adoption, which runs the Wendy's Wonderful Kids program to address local community groups' interests in family unity and social advancement (Lombardo, 2017). Similarly, Yum! Brands launched a parental time-off policy to offer its employees fully paid baby-bonding time for six weeks, along with other benefits including autism support and daycare facilities (Yum!Brands, 2017).

Due to the unique nature of the tourism industry — which is characterized by close communication between firms and local stakeholders, such as franchisees, customers, employees, and communities — the consideration of the local environment and extensive adaptation to the local culture is essential when implementing an appropriate localized CSR strategy for successful...
survival and sustainable operations in the local business environment (Capar & Kotabe, 2003; Waldman et al., 2006a).

In particular, uncertainty avoidance (UA), defined as the degree to which people in a society are uncomfortable with risks (Hofstede, Hofstede, & Minkov, 2010), is a core cultural dimension associated with CSR. That is, while CSR reduces a firm’s risk by offering insurance-like protection against litigation and regulation costs (Kacperczyk, 2009), it may also be considered an unfamiliar, risky practice due to its less clear-cut predictability and ambiguity about the outcome manifested over time (Falck & Heblich, 2007).

Unfortunately, CSR research that accounts for specific cultural factors is still rare in the current tourism literature, whereas there is a considerable amount of research investigating the relationship between CSR and financial performance (e.g., Henderson, 2007; Holcomb, Upchurch, & Okumus, 2007; Kang, Lee, & Huh, 2010; Manaktola & Jauhari, 2007). By examining the relationship between UA and CSR in the restaurant context, we aim to see how UA, a contextual factor, influences a firm’s CSR-related decisions and their outcomes.

Moreover, to comprehensively address a firm’s decision-making mechanism for strategic choice and implementation and to avoid an incomplete understanding of a firm’s behaviors, we attempt to incorporate the biases and preferences of the firm’s upper echelons beyond focusing just on objective contextual factors (Finkelstein, Hambrick, & Cannella, 2009). In doing so, in the current study we incorporate the factor of the CEO’s narcissism, which may moderate the relationship between UA and CSR.

Narcissism is a multifaceted concept characterized by a positive and inflated view of the self and a self-regulation strategy that manages and aggrandizes this positive view of the self (Campbell, Goodie, & Foster, 2004; Emmons, 1987; Piff, 2014). Although narcissism is a principal factor in theories and studies dealing with executive personality and is considered to be a characteristic of most CEOs of major firms to some extent (Finkelstein et al., 2009), it has been largely neglected by CSR researchers, especially in the tourism literature. More importantly, as the restaurant industry is characterized by sensitivity to economic conditions and high managerial discretion (Finkelstein et al., 2009), an examination of how a CEO’s narcissistic personality influences a firm’s CSR-related decision-making and interacts with contextual factors like UA is critical to enhancing our understanding of CSR in the restaurant context.

With the exception of a few studies (e.g., Singal, 2014), empirical studies on CSR in the tourism literature have mainly incorporated CSR as an independent variable affecting firm performance (e.g., Lee, Seo, & Sharma, 2013; Park, Song, & Lee, 2017; Theodoulidis et al., 2017). That is, most research models used by tourism-related studies have not clearly addressed the potential interactions between environmental variables and CEO characteristics embedded in an organization, which may affect a firm’s CSR implementation (Theodoulidis et al., 2017). Thus, this study attempts to fill this gap in the tourism literature by providing empirical evidence of the effect of UA as a contextual factor on CSR and of the moderating role of CEOs’ decision-making behavior derived from their narcissistic personality traits on the relationship between UA and CSR in the restaurant industry context. In fact, based on the tourism literature, the restaurant industry is an important component of the tourism industry. For example, Pizam (2009) identified the restaurant industry as an overlapped component between the tourism and hospitality industry. Moreover, according to Josiam, Mattson, and Sullivan (2004), restaurants are categorized as tourist attraction, which provides not only food and beverages but also unique tourism-related experiences. Similarly, Fick and Brent Ritchie (1991) listed restaurant as a travel and tourism service segment, indicating substantial contribution of the restaurant industry to the development of tourism.

In the following section, we review the literature on CSR and UA on which the development of our first hypothesis is based. We then explain CEO narcissism as a boundary condition of the impact of UA on CSR. Data and variables are discussed in the methodology section, followed by the results and discussion of the findings based on an empirical analysis of US publicly traded multinational restaurant firms. Lastly, the limitations of this study and avenues for future study are discussed.

2. Literature review and hypothesis development

2.1. CSR and uncertainty avoidance

Extensive research has attempted to examine the relationship between CSR and corporate financial performance (CFP). To investigate the effects of CSR, many researchers in finance, economics, and strategic management have examined the relationship between CSR and firm performance (e.g., McGuire, Sundgren, & Schneeveis, 1988; Peloza, 2006; Tsoutsoura, 2004), arguing that CSR initiatives are strategic choices that influence firm performance. For example, by focusing not just on shareholders but also on various other stakeholders, including employees, customers, suppliers, and communities, CSR can reduce the cost of committing resources to the organization and enhance the firm’s reputation, even during a corporate crisis (Hillman & Keim, 2001; Schnietz & Epstein, 2005; Turban & Greening, 1997).

In fact, CSR in the tourism industry exhibits characteristics distinct from CSR in other industries, which makes it even more important. Specifically, the high level of brand familiarity of companies in the tourism industry makes the impact of CSR on brand reputation or image more significant (Kang, Lee, & Yoo, 2016). As tourism is a consumer discretionary industry, customers can easily stay away from brands that neglect their social responsibility and may switch to other brands or service providers with fairly less search cost. Therefore, CSR should not be overlooked, and indeed it has attracted a great deal of attention from the tourism industry.

CFP is the main dependent variable investigated in the majority of academic studies on tourism’ or similar. Accounting-based measurements such as ROA and ROE (e.g., Inoue & Lee, 2011; Kang et al., 2010; Lee & Park, 2010) and market-based measurements like Tobin’s q (e.g., Kim & Kim, 2014; Lee et al., 2013; Youn, Hua, & Lee, 2015) have been employed for CFP operationalization. In contrast, CSR has rarely been considered as a dependent variable in tourism-related research (Theodoulidis et al., 2017).

However, the characteristics of the tourism industry require research that promotes an understanding of what affects CSR, not just of CSR as a factor that affects CFP, so that organizations can consult academic research to help them plan and execute CSR effectively. In this study, we argue that understanding the contextual factors that influence CSR is of equally vital importance.

Previous literature on CSR has examined firm- and industry-related characteristics and management demographics as determinants of CSR, including firm size, the sector or industry of economic activity, historical engagement in CSR, legal status, managerial ownership, strategic planning, corporate culture, and market position and values, and the level of education, training, and religiosity of management (Paek, Xiao, Lee, & Song, 2013; Quazi, 2003; Reverte, 2009; Sabir, Kalyar, Ahmed, & Zaidi, 2012).

In the restaurant context, many firms largely operate as multinational companies and CSR is a major strategic factor in those firms’ successful operation in local markets. In fact, many CSR policies are based on localized issues and cultural traditions at the country level (Welford, 2005), and CSR may moderate the initial costs of entry into international markets (Kang et al., 2016).
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