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Exploring corporate social responsibility and financial performance through stakeholder theory in the tourism industries

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HIGHLIGHTS

- Relationship between stakeholder management (CSR), firm strategy and CFP.
- Development of a sound theoretical foundation based on stakeholder theory.
- Strategic stakeholder and intrinsic stakeholder commitment models proposed.
- Evaluation in four tourism industries: airlines, casinos, hotels and restaurants.
- Existence of direct effects of CSR on CFP and indirect effects via firm strategy.

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ABSTRACT

The literature examining the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) in the tourism industries is extensive but it has not verified the relationship unambiguously. This has been attributed to the methodological artefacts used, but also to the lack of a solid theoretical foundation. Based on stakeholder theory, this paper proposes the use of two models that explicitly investigate the relationship between stakeholder management, expressed as CSR activities, firm strategy and CFP. The strategic stakeholder model and the intrinsic stakeholder commitment model are evaluated in terms of their descriptive accuracy in four different tourism-related industries (airlines, casinos, hotels and restaurants) using panel regressions for the years 2005–2014. The results provide useful theoretical insights into the way in which CSR interacts with firm strategy and CFP, as well as managerial insights into how tourism practitioners can identify which CSR activities may impact CFP.

1. Introduction

Stakeholder interests are posited as being critical to the success of any business, according to the managerial literature (Berman, Wicks, Kotha, & Jones, 1999; Falck & Heblich, 2007; Freeman, 1984). In particular, it has been argued that managers should directly and explicitly take into consideration stakeholders' interests and needs, and aim to address them through different aspects of the firm's strategy (Falck & Heblich, 2007). Central to the interests of the various stakeholders is the social performance of the firm, assessed through corporate social responsibility (CSR) activities, such as those captured by the MSCI ESG data set (previously known as the KLD data set) (MSCI, 2015a), a popular source that has been widely used in previous work.

The literature examining the relationship between CSR and corporate financial performance (CFP) is extensive but it has not verified the relationship unambiguously. A number of comparative studies have been carried out to examine the CSR–CFP relationship in order to understand the reasons behind the mixed results, to identify the determinants of the relationship and to highlight gaps

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and opportunities for further research. These comparative studies employed narrative reviews (Ambec & Lanoie, 2008; Coles, Fenclova, & Dinan, 2013), vote-counting (Margolis, Elfenbein, & Walsh, 2009) or meta-analysis (Albertini, 2013; Allouche & Laroche, 2005; Dixon-Fowler, Slater, Johnson, Ellstrand, & Romi, 2013; Endrikat, Guenther, & Hoppe, 2014; Orlitzky, Schmidt, & Rynes, 2003).

Despite the increased interest, the relationship *"has not yet been unequivocally verified through empirical studies"* (Coles et al., 2013). This has been attributed, in part, to the different and not directly comparable methodological artefacts used, for instance, empirical methods, CSR and CFP dimensions, data sets, multi-industry/cross-sectional perspective and organisational culture, but also to the lack of a solid theoretical foundation (Coles et al., 2013; Endrikat et al., 2014; Lee, 2008; Orlitzky et al., 2003).

In addition, recent literature has highlighted the need to study different industries and sectors separately (Endrikat et al., 2014). It has been reasoned that each industry faces unique challenges in relation to their own internal and external environment, such as different levels of competition, varied stakeholder interests, and different regulatory contexts and market conditions, among others, which create various pressures and requirements for their involvement with CSR activities and their effect on CFP (Busch & Hoffmann, 2011; Endrikat et al., 2014; Godfrey & Hatch, 2007; Griffin & Mahon, 1997; Russo & Fouts, 1997).

In this paper we study the CSR–CFP relationship in the tourism-related industries. The tourism sector includes all those organisations that are designed to *"serve the specific needs and wants of tourists"* (Leiper, 1979). Tourism-related industries can be divided into six different segments, namely, tourist carriers (e.g. airlines), tourist attractions (e.g. casinos), tourist accommodation (e.g. hotels), tourist services (e.g. restaurants), tourism marketing (e.g. national tourism bodies) and tourism regulators (e.g. governmental organisations) (Leiper, 1979). For the purposes of this work, we examine the first four, since they mainly consist of private organisations (Inoue & Lee, 2011; Kang, Lee, & Huh, 2010).

In relation to the theoretical foundations, tourism-related literature has not fully considered the possible interaction or moderation effects of firm, industry, strategy and operating environment variables, as these have been addressed in manufacturing firms (Berman et al., 1999). Recent tourism-related studies have recognised the need to investigate interaction or moderation models and have considered moderators such as oil prices (Lee, Seo et al., 2013), economic conditions (Lee, Singal et al., 2013), market dynamism (Leonidou, Leonidou, Fotiadis, & Zeriti, 2013), competitive intensity (Leonidou et al., 2013) and firm size (Youn, Hua, & Lee, 2015). However, these have been studied without a common theoretical framework that could justify their relevance.

In order to close this gap, we propose the use of the stakeholder theory as the theoretical viewpoint that could facilitate an understanding of the relationship between CFP and CSR activities in the tourism-related industries, as well as rationalise the possible interaction or moderation effects of firm, industry, strategy and operating environment variables. Taking into consideration the strategic stakeholder and the intrinsic stakeholder commitment models (Berman et al., 1999), we provide a strong theoretical foundation in order to examine the relationship between CSR and CFP for the tourism sector and its industries.

In this paper we contribute to the literature in four key areas. First, we strengthen to the theoretical foundations of tourism-related research by proposing the use of two models that explicitly investigate the relationship between stakeholder management, expressed as CSR activities, firm strategy and CFP. The two models, namely, the strategic stakeholder model and the intrinsic stakeholder commitment model (Berman et al., 1999), provide a theoretical foundation that is rooted in the stakeholder theory (Freeman, 1984). Second, we contribute to the empirical research on the tourism sector by evaluating the descriptive accuracy of the proposed models and by providing useful insights into the efficacy of stakeholder management practices, expressed as CSR activities. Third, we contribute to the empirical research in four different tourism-related industries, namely, airlines, casinos, hotels and restaurants, by providing insights into the way that stakeholder management practices, expressed as CSR activities, interact with firm strategy and CFP. Finally, we propose sound methodological artefacts so that our study is both replicable and comparable to related studies (Endrikat et al., 2014; Hartshorne & Schachner, 2012).

In summary, this research contributes to the body of tourism-related literature by addressing the lack of a theoretical foundation and by providing empirical evidence through the application of the proposed research model to a long-term industry-specific investigation using multidimensional CSR measures in panel data. Furthermore, the study provides tourism managers in the selected industries (airlines, casinos, hotels and restaurants) with clear understandings about which CSR activity areas would impact the firm's financial performance.

2. Literature review

As argued by Coles et al. (2013), in order for tourism-related research to progress further, *"greater critical engagement with mainstream thinking on CSR is required as well as greater conceptual and methodological sophistication"*. This implies that tourism-related researches need to examine theoretical frameworks and models that have been used to examine the CSR–CFP relationship in other sectors and, furthermore, to explore more sophisticated empirical methods. In this section, we discuss stakeholder theory and its relevance to CSR. We also critically review tourism-related CSR–CFP studies and we argue that stakeholder theory can provide a suitable theoretical framework to examine this relationship.

2.1. Stakeholder theory

According to Freeman (1984), the stakeholder theory identifies the generation of value as a central driver of the enterprise, but it also recognises that this value is to be shared by a group of stakeholders that includes not only shareholders and managers but also all actors in society that may have an interest in how the firm operates. The theory is organised under two principal questions: What is the purpose of the firm? *And* what responsibility does management have to stakeholders? These questions direct executives to think about how they want to pursue business and what kind of relationships – and with what emphasis – they want and need to create with interest groups (stakeholders) in order to achieve their goals (Freeman, 2000).

The stakeholder theory is "managerial" in the sense that it addresses how managers perform their duties, and it is intimately connected to the practice of business, of value creation and trade (Laplume, Sonpar, & Litz, 2008). Moreover, it explicitly recognises that shareholders are important stakeholders; however, they are just one of myriad incumbents. Similarly, it recognises that profits are a critical dimension of the day-to-day activity of the firm, but profits and financial performance are one possible outcome of the process of value creation.

According to Donaldson and Preston (1995), the theory can be examined from three different perspectives, namely, the descriptive, the instrumental and the normative perspectives. The descriptive perspective assumes an empirically oriented use of the theory to show how concepts correspond to reality. The