Does Corporate Social Responsibility Matter During Crises?

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Introduction

Current news media often highlight corporate social and environmental initiatives announced by corporations big and small, and especially those in the hospitality industry. For example, recent news media have reported that Wyndham hotels awarded frontline workers free night stays, that MGM Resorts partnered with UNLV to provide free tutoring to children of employees, and that AC hotels repurposed essentials like towels, linens, and toiletries for people in need (Lodging, 2020). Similarly, restaurants stepped up to help their communities during the Coronavirus pandemic, often becoming community kitchens or a temporary grocery delivery service (Nation’s Restaurant News, 2020). The significance of corporate social responsibility (CSR) in the business world has been increasing with dramatically growing concerns for social justice and climate change that have garnered broad support by the community at-large in recent times. Along with this trend, stakeholders, such as consumers, employees, suppliers, and the community relate to the concept of environmental, social, and governance issues (ESG). Firms realize that these concerns are no longer discussion topics in corporate boardrooms and investment communities, but also actionable strategic priorities for CSR reporting and for competitive advantage. In addition, a major benefit of CSR from
the company’s perspective is that it often provides insurance-like protection by accumulating reputation assets to provide resilience during crises.

The corporate world, and especially the hospitality industry, has been hit hard by the ongoing pandemic. Although Covid-19 is a rare crisis, we believe that the implications of CSR initiatives for companies may hold the same as in other shocks. Many CSR studies have suggested a positive effect of CSR on firm value and performance, although there have been other empirical findings including from hospitality studies that have suggested non-significant effects of CSR on firm value and performance (for example, Lee, Singal, and Kang, 2013; Park and Lee, 2009). What is noteworthy from previous findings is that there are several contingent or boundary conditions that affect the relationship between CSR and firm performance. For example, according to Youn, Song, Kim, and Lee (2016), the effect of CSR on firm performance differs between fast-food and full-service restaurants. Specifically, the positive effect of CSR is greater for fast-food restaurants than for full-service restaurants. Similarly, Lee, Singal, and Kang (2013) found that the effect of CSR can also differ according to economic conditions or business environments, meaning that CSR can affect firm performance differentially during economic downturns than during economic boom. Thus, it would be interesting and important to explore and understand how CSR works in hospitality companies especially during external crises. In this article, we discuss how CSR may provide some protection to hospitality companies during crises including general economic hardships like cyclical recessionary periods and operationally challenging times, as well as the current pandemic, based on empirical findings in past scholarly literature.

To fully understand the results of our various analyses, the CSR dimension should be first discussed. CSR can be understood/measured at an aggregate level, representing a firm’s overall CSR investment or engagement in environmental, social, and governance initiatives. However, such an overall CSR measure can be categorized into multiple dimensions such as employee relations, environmental issues, local communities, product quality, etc. Considering this multi-dimensional nature of CSR, we can categorize CSR into two dimensions: operations-related vs. non-operations-related CSR. Operations-related CSR can include activities that directly relate to the firm’s core business operations, such as employee relations, product quality and safety, and corporate governance. On the other hand, non-operations-related CSR activities are likely to have no direct, immediate impact on the firm’s core business operations, and may include initiatives that foster a clean environment, greater diversity, community relationships, and concern for human rights. It should be noted that non-operations-related CSR activities can have an impact on a firm’s value, perhaps more likely in a longer time frame and in an indirect manner that is not directly
measurable, while operations-related CSR activities are likely to make an immediate and direct impact on firm value from the business perspective.

**Role of CSR during recessionary periods for restaurants**

If the argument for CSR is that it can provide some insurance-like protection during crises, that should extend to economic crises such as economic downturns. Certainly, economic crises can mean a global crisis, such as the 2008 financial crisis or cyclical recessionary downturns. Thus, it is meaningful to see the impact of a firm’s CSR initiatives that can provide protection or perhaps hasten the decline because CSR initiatives require investment and consume scarce resources. This effect is especially important for businesses in the hospitality sector like restaurants which face a very discretionary consumer demand, as was recently evidenced by the pandemic.

In our paper (Lee, Singal, & Kang, 2013), we explored the two dimensions of CSR activities (operations-related and non-operations-related). Our analysis of over 200 observations from publicly traded U.S. restaurant firms demonstrated that non-operations-related CSR activities do not impact firm value during ordinary economic times, but these activities detract from firm value during recessionary times. In other words, these findings suggest that U.S. restaurant firms’ investments in non-operations-related CSR activities like community involvement or environmental initiatives do not seem to add value to their firm during normal times, but when the economic conditions become unfavorable (i.e., recessionary periods), firms’ engagement in such activities diminish firm value. Interestingly, our analyses found that operations-related CSR activities like investment in employee relations and good corporate governance also showed little effect on the firm’s value during ordinary economic times, but appeared to add value during recessionary economic times. Hence, although CSR activities may not always be cost-effective purely from a financial perspective during normal or non-recessionary times, CSR activities that are directly related to a firms’ core operations help the firm during recessionary or economic downturns.

In another study conducted by Rheem (2009), it was found that U.S. consumers were willing to pay a premium for travel-related green business practices that did not have clear cost-saving implications, but they were not willing to pay the premium for practices that in their opinion only saved money for the business operators. Such consumer sentiment may explain why a firm’s CSR engagement (especially, operations-related CSR) does not lead to improved firm value during normal economic conditions. However, during economic downturns, this same sentiment may lead to positive outcomes for operations-related CSR activities like direct cost savings, that help in leaner times. In addition, the tight profit margins of the restaurant industry may explain
why restaurant firms’ engagement in non-operations-related CSR can actually hurt firm value during recessionary periods.

The role of CSR during unfavorable oil prices for airlines

Another study by Lee, Seo, and Sharma (2013), provides empirical evidence on how the two dimensions of CSR activities can help airline companies effectively deal with the operational challenge of their risk exposure to oil price fluctuations. This study showed that non-operations-related CSR activities were associated with a decline in an airline company’s value, on average, as its risk exposure to oil price change becomes worse, while operations-related CSR activities help airlines maintain or even improve their value as their risk exposure to oil price change worsens. Financial markets may perceive airlines’ engagement in operations-related CSR activities as a more efficient tool than non-operations-related CSR activities to manage risk exposure to oil price change. Similar to the restaurant case discussed in the previous section, this result may be attributed to the fact that operations-related CSR practices may directly and immediately impact their operations which in turn provide airlines a chance to mitigate the negative effect from increased risk of exposure to oil price changes.

The role of CSR during the Covid-19 pandemic

Analysis of hospitality firms, including hotels, restaurants, and casinos, during the pandemic by Yeon and colleagues (2021) shows that there is a correlation between the number of confirmed Covid-19 cases and negative stock performance. Further analyses, however, find that for those hospitality firms who had a high level of CSR engagement, the negative impact of Covid-19 on stock performance was lower, supporting the idea that CSR served as a tool to provide better resilience during a crisis.

To explore more nuanced relationships across different sub-sectors (restaurants, hotels, and casinos) and individual CSR dimensions (environment, employee, and communities), the study conducted more analyses, and the findings suggest that, for the restaurant industry, the environment engagement was the key part of CSR activities that provided resilience. An unexpected finding reported in this study was that CSR towards employees did not appear to help restaurants achieve better resilience during the pandemic. This seemed contrary to the received wisdom that those companies that treated their employees well recovered faster. However, we may have to consider the fact that many restaurants during the pandemic pivoted to takeout and delivery only, or changed their dining mode by limiting indoor occupancy capacity, which not only reduced revenue but correspondingly also reduced the need for staffing during the pandemic. In that sense, shareholders and potential investors would place less
importance on the CSR employee dimension during the pandemic than pre-pandemic times.

For hotels and casinos, interestingly, the analyses found that CSR activities did not help them alleviate the negative impact of Covid-19 cases on stock performance. For hotels, this might possibly happen because a hotel's business prospects may be perceived to be dire compared to the restaurant business from the financial market's perspective. Hotels rely heavily on visitors who travel at a time when global travel restrictions due to the pandemic led to the unprecedented decline in the total number of travelers due to lockdowns and safety concerns. Although many restaurants suffered from lower demand due to the pandemic, they could rely on local customers, utilizing curbside pick-up and delivery (Costa, 2020). According to the National Restaurant Association, the restaurant industry’s revenue for the third quarter of 2020 was $162.3 billion leading to a 16.43% decrease, compared to $194.2 billion for the third quarter of 2019. On the other hand, Coldwell Banker’s Richard Ellis reported that the hotel industry experienced a 67.7% and 54.4% RevPAR drop in the second and third quarter of 2020, respectively, compared to those in 2019. Thus, investors and financial markets may have factored this perspective in their equity pricing, which may make it harder for hotels to mitigate the negative effect of Covid-19. The casino industry is highly regulated and thus a clear signal from their CSR activities may not be deciphered. The evaluation of their practices towards different CSR dimensions by investors may have inconsistencies and ambiguities from the value-adding perspective (Yang et al., 2020).

Conclusion

As we saw from the various studies conducted in different sectors of the hospitality industry, across different kinds of crises, the results of CSR activities are not consistent. Besides, the findings discussed in this article relate to publicly traded hospitality firms and not individual properties or units. Yet, overall, it is still important to understand that we see evidence that engagement in CSR activities can somewhat mitigate the negative consequences of challenging economic conditions or crisis situations. Hospitality businesses should consider this evidence as motivation to actively and strategically develop and execute their CSR initiatives, not only for reputation and marketing benefits, but also to lessen the effects of unexpected crises.

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References and Further Reading


