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How Different Are Corporate Social Responsibility and Corporate Governance in Today's Business Environment?

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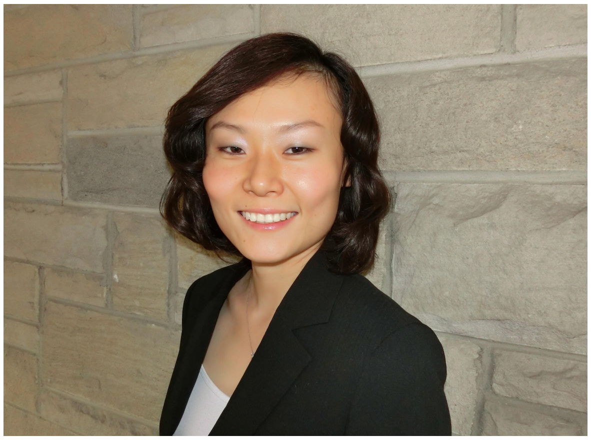

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How Different Are Corporate Social Responsibility and Corporate Governance in Today's Business Environment?

The topic of corporate social responsibility (CSR) has attracted wide attention from scholars, the public, and industry professionals alike. In the hospitality literature alone, numerous studies have examined its antecedents and outcomes, as evidenced by a large number of review papers on CSR published in major hospitality and tourism journals as compared with other topics such as finance and accounting, of which review papers are rare. Despite the prolific research, there is a lack of a universally agreed upon definition of CSR such that CSR "means something, but not always the same thing to everybody" (Votaw, 1972, p. 25). Nevertheless, there is some consensus that CSR describes actions taken by the firm that are voluntary and that have ethical, social, and environmental implications (Carroll, 1999). Indeed, the vast majority (97%) of the various definitions employed by existing studies share at least three of the five dimensions identified by Dahlsrud (2008): environmental, social, economic, stakeholder, and voluntariness dimensions, leading to the conclusion that how CSR is defined is less an issue than how it is socially built in a specific context.

Similar to CSR, the topic of corporate governance (CG) has also been extensively studied by scholars and debated by the public, industry decision-makers, and regulators. Although in recent years there has been a clear increase in research interest in CG in the hospitality field, overall, the topic has been understudied compared with popular topics such as consumer behavior and organizational behavior (Li & Singal, forthcoming). Due to the separation of ownership and control, managers in publicly traded companies may pursue personal interests instead of acting in shareholders' best interests. To align the interests of managers and owners, various internal and external governance mechanisms are employed by the firm to deter managerial self-interest and to maximize return to owners on their investment. Among these governance mechanisms, internal mechanisms such as ownership structure, executive compensation and board of directors, and external mechanisms like government regulations have been brought to the fore of public attention.

Research on CSR and CG

Historically, CG research assumes a shareholder primacy approach that focuses on maximizing shareholder value as the sole purpose of a firm. Moving away from such a shareholder-centric perspective, CSR employs a stakeholder approach that emphasizes the importance of investment on behalf of non-shareholders such as customers, employees, and suppliers. Specifically, the application of the stakeholder approach can be categorized as having one of three perspectives: descriptive, instrumental, and normative (Donaldson & Preston, 1995; Theodoulidis, Diaz, Crotto, & Rancati, 2017). A descriptive perspective centers around how accurate the stakeholder concepts depict reality. An instrumental perspective concentrates on the connection between managerial decisions on stakeholder-related CSR activities and the outcomes for the firm. A normative perspective attempts to understand how managers address stakeholder concerns for CSR activities and their reasonings behind it.

Interestingly, despite a paradigm shift from shareholder-centric to stakeholder-centric, the primary focus in CSR literature remains on the implications of CSR activities for firm performance, consistent with the instrumental perspective (Volgger & Huang, 2019). That is, in both the mainstream management and hospitality literature, CSR research is primarily focused on whether CSR activities lead to improved firm performance, or whether there exists a business case for CSR. Like CSR, good corporate governance practices are often thought to be associated with better firm performance. In this sense, both CSR and CG activities can influence a firm's strategies and its performance, implying that CSR and CG are not completely different or mutually exclusive, despite the fact that they are often treated distinctively in research (Kolk & Pinkse, 2010).

Supporting this view, an emergent stream of research has conceptually and empirically illustrated the close link between CSR and CG and the convergence of the two.

Convergence of CSR and CG

Expanding the definition of CSR, the European Commission (2011) defines it as "a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations […] with the aim of maximizing the creation of shared value for their owners/shareholders and for their other stakeholders and society at large." Expanding the definition of CG, a World Bank document (Claessens, 2003) states that "corporate governance would also encompass the issue of corporate social responsibility, including such aspects as the dealings of the firm with respect to culture and the environment." Clearly, there is a significant, conceptual overlap in these definitions of CSR and CG. However, existing research often treats them as distinctive constructs.

For example, one stream of research has examined the link between CSR and CG. When exploring the effect of corporate governance on firms' CSR engagement, Harjoto and Jo (2011) found that firms with effective corporate governance tend to engage in more CSR activities to reduce the conflict between shareholders and other stakeholders of the firm, and the reduced conflict in turn increases the firm's financial performance. During periods of negative economic uncertainty, Borghesi, Chang, and Li (2019) showed that firms with rigid corporate governance have lower firm value, whereas firms actively engaging in CSR activities have higher firm value. In the hospitality and tourism industry, Uyar, Kilic, Koseoglu, Kuzey, and Karaman (2020) identified some characteristics of the board that are related to superior CSR performance.

Contrary to the view that CSR and CG are separate constructs, Kolk and Pinkse (2010) found that more than half of their sample of Fortune Global 250 companies have a designated section for corporate governance in their CSR report and/or explicitly discuss the link between corporate governance and CSR issues. Similarly, interviews of board directors and CSR practitioners in 13 select FTSE 100 companies in the U.K. suggested that there is a great level of convergence between CG and CSR in the form of more formal governance structures, such as CSR board committees and CSR reports, and such convergence is driven by regulatory pressure, the increase of corporate scandals, and demands from investors (Money & Schepers, 2007). As a result, CG and CSR have been broadened considerably to include some aspects traditionally seen as being a part of the other construct.

The evolution of CG to include CSR aspects is particularly interesting when looking back to a time when boards of directors were required by law to focus exclusively on maximizing value for shareholders. In 1919, Henry Ford, chairman and majority owner of Ford Motor Co., was ordered by the Michigan Supreme Court to pay an extra dividend after being sued by minority shareholders, the Dodge brothers, for frequently increasing his workers' compensation, reducing the price of Model T, and reinvesting profits in expansion (Coy, 2020). Today, Henry Ford would be applauded by many stakeholders for setting an example for CSR. Similar CSR activities initiated at the top management level have also been found at the onset of the Covid-19 pandemic, when several CEOs in the hotel industry, including the late Arne Sorenson of Marriott and Christopher Nassetta of Hilton, took a cut to their salaries to show their support of their employees by sharing their pain.

Implications for hospitality firms

In today's business environment, a firm has to be internally well-governed and externally responsible to be considered a good corporate citizen to be accepted by consumers and societies. To illustrate the importance of CSR on businesses, 61% of respondents of a global survey on individuals in London, New York, and Singapore indicated that they would boycott a brand for environmental reasons (Neill, 2020). Due to the unique characteristics of the hospitality industry, good CG practices and active CSR engagement are especially vital to the success of hospitality firms.

Following the release of the documentary "Blackfish" in 2013, SeaWorld's profits dropped 84% in the second quarter of 2015 as consumers turned their backs on the theme park for how it abused its animals. As a result, the company announced that it would end its orca breeding program in 2016, stating that "Society is changing and we're changing with it" (du Lac & Bever, 2016). In 2020, SeaWorld reached a $65 million settlement over a lawsuit accusing it of misleading investors about the damage to its business from the documentary, leading the company to make "certain corporate governance modifications" according to a SEC filing (Manskar, 2020).

Furthermore, the convergence of CG and CSR sheds light on the importance for the board of directors to incorporate aspects of CG/CSR into the firm's current CSR and CG practices. This is because many of the large hotel, restaurant, theme park, and casino companies in the world are multinational enterprises (MNEs) operating in multiple countries and regions. Prior research (Kolk & Pinkse, 2010) suggests that MNEs are more likely to integrate CG into the reporting of CSR as they often face higher demands for information transparency. Since hospitality operations require large consumption of energy and natural resources, they can negatively impact a firm's bottom-line and its surrounding environment. It is imperative that firms come up with a coherent CG and

CSR strategy that takes into consideration all costs incurred to the firm and its environment.

To do so, hospitality firms should leverage data generated through daily operations about products, customer sentiment, and other business activities to make data-driven decisions that are consistent with ever-changing social trends, as well as customer and stakeholder perceptions (Diligent, 2021). This will allow firms to capitalize on their markets to improve their bottom-line. In addition, the board of directors should focus on the environmental, social, and governance (ESG) issues that directly affect the firm's long-term profitability. They should act with transparency, show accountability, treat all stakeholders fairly, and be responsible for their actions to ensure good corporate governance that is conducive to the firm's long-term success (Business Roundtable, 2016).

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