Boston Hospitality Review

www.bu.edu/bhr

Published by the Boston University School of Hospitality Administration

The Impact of Corporate Social Responsibility on Firm Performance: Does the Life Cycle Stage of a Firm and its Corporate Governance Structure Matter?

By Jihwan Yeon, Ph.D. Student,
Pennsylvania State University

Corporate Social Responsibility
November 2021

About the Author

Jihwan Yeon is a doctoral candidate in the School of Hospitality Management at the Pennsylvania State University, Pennsylvania. His research interests include sharing economy, crisis management, corporate social responsibility, and sustainability issues in the hospitality and tourism industry. **Linkedin**

The Impact of Corporate Social Responsibility on Firm Performance: Does the Life Cycle Stage of a Firm and its Corporate Governance Structure Matter?

Introduction

Hospitality firms are actively engaging in Corporate Social Responsibility (CSR) to generate strong relationships with stakeholders while aiming to benefit their own performance. For example, McDonald's has mapped its Scale for Good initiatives to the UN Sustainable Development Goals (SDGs), taking meaningful actions toward its stakeholders such as customers, communities, farmers, and suppliers that produce the company's food, employees, and non-governmental organization (NGO) advisors and partners (McDonald's, 2019). Also, according to its 2019 corporate responsibility report, Hilton has invested more than $1 trillion in communities, calling it the "Hilton Effect." (Hilton, 2019). These sorts of actions under the CSR/Sustainability framework clearly show that companies are ramping up their focus on social responsibility and making a positive difference to some of the most pressing social and environmental challenges in today's society. At the same time, a greater focus on CSR makes the company more appealing to investors, given that investors are increasingly aware of the importance of social and environmental concerns.

CSR and financial performance: A stakeholder perspective

Although some see CSR as simply philanthropy by a different name, it can be defined broadly as the efforts that firms make, above and beyond regulation, to balance the needs of stakeholders with the need to make a profit. In this respect, in academia, a historical analysis of CSR has largely focused on how CSR efforts can be beneficial to a firm's bottom-line performance. Particularly, a group of scholars argue that CSR practices have a positive impact on financial performance based on stakeholder perspective (Freeman, 1984), suggesting that firms expand the scope of consideration in their decision-making and business practices beyond shareholders to several other constituencies with interests, namely non-shareholding stakeholders (i.e., customers, employees, suppliers, and communities). However, although CSR towards the non-shareholding stakeholders can be regarded as an investment that can be instrumental in achieving bottom-line performance (Jones, 2016), some mixed research findings regarding the profitability of CSR provide evidence that a firm may not be able to gain possible financial benefits from CSR when it fails to meet certain stakeholders' needs (Wang et al., 2016).

Most firms are committed to satisfying as many stakeholders' interests as possible. However, given that firms have finite resources, firms are unlikely to fulfill all the responsibilities to satisfy the needs of all stakeholders (Jawahar & McLaughlin, 2001). Further, despite many examples of successful CSR practices, there are also cases where firms' efforts do not correspond to desirable behaviors. For example, major hotel chains, such as Hilton, Marriot, Wyndham, and others are named in dozens of lawsuits of ignoring clear signs of human trafficking, which leads to reputational problems. This suggests that identifying stakeholders that are essential for a firm's survival, as well as efficiently allocating limited resources corresponding to the relative importance of the particular stakeholders, are keys to the success of CSR practices. That is, mere investments in CSR are insufficient to strengthen relationships with stakeholders and further improve firm performance. In this respect, a more comprehensive view should be developed in order to deepen the understanding of how CSR can influence a firm's financial performance.

The concept of Corporate Life Cycle (CLC)

Despite the inconsistent research findings regarding financial benefits of CSR, the existing academic research has made great contributions in identifying the factors that influence the financial benefits of CSR, providing a more fine-tuned assessment of CSR. Among the possible reasons proposed in academia, one would be an underlying assumption frequently adopted by much academic research that the association between CSR and financial performance is monotonic and does not vary with firm-level attributes, such as firm size (Mackey et al., 2007). However, in the business world, where a firm's strategy, structure, decision-making process, and managerial priorities respond to external environments that keep changing, there is no reason to suppose that the impact of CSR activities on financial performance is predetermined. Given that firms are viewed as heterogeneous bundles of assets and resources, firms with different resources may possess unique CSR capabilities and objectives, which may provide different outcomes from CSR in every case.

In addition to this, firms' resources and capabilities could vary over time, along with the external and internal environment of a corporation. Therefore, since firms' resource portfolios change over time, the financial benefits of CSR could be contingent on the progression of firms across stages of growth over time. In this respect, this article suggests that a firm's ability and incentives to become involved in CSR activities, as well as the financial consequences of those activities, may vary at different life cycle stages. The concept of Corporate Life Cycle (CLC) provides the stages of growth and development that nearly every firm goes through from initiation of the firm to its end, which might exist in a variety of ways. Although the length of time a firm stays in each stage may vary, four stages of a corporate life cycle are usually found in the story of every business, namely "initial", "growth", "mature", and "decline" stages.

The CLC and key stakeholders

Because constituencies in the external and internal environment of a firm vary with the CLC (Anderson & Zeithaml, 1984), firms in different stages are likely to have different needs with respect to resources. In some life cycle stages, certain needs far outweigh other needs that, if left unfulfilled, the firm is unlikely to survive (Jawahar & McLaughlin, 2001). At the same time, while stakeholders can be affected by organizational outcomes, stakeholders also provide resources that are more or less critical to a firm's success (Hill & Jones, 1992). In order to create a competitive advantage, therefore, firms should certainly pay more attention to stakeholders who control resources critical to the organization's survival than to stakeholders who do not control such critical resources. Accordingly, it is beneficial for firms to interact with stakeholders whose participation is most essential for satisfying those critical needs. In addition, it is apparent that a firm's ability to respond to pressures and fulfill the expectations of stakeholders that are important for its survival is critical. Further, depending on the relative importance of the particular stakeholders, it is expected that firms will use strategies with different emphases to deal with those particular stakeholders.

Application to business cases of the hospitality industry

The industry segment should not be taken lightly since the hospitality industry has unique characteristics that are distinguished from other industries, and firms should consider those characteristics when identifying the key stakeholders in each life cycle stage of the firm. The hospitality industry is characterized by a high level of capital intensity and a relatively low level of operating inventories (DeFranco & Lattin, 2006).

The high level of capital intensity may increase the significance of creditors who are the primary supplier of critical start-up funds. This circumstance posits the creditors as key stakeholders in an earlier stage of the firm. Likewise, the relatively lower level of operating inventories may decrease the significance of suppliers in the hospitality firms, compared to the same situation within the manufacturing firms. As such, considering the contextual factor (i.e., industry segment), this article defines key stakeholders in each life cycle stage of hospitality firms (i.e., initial, growth, mature, and decline) and predicts financial implications of CSR as follows:

Initial stage

The initial stage is the period in which a business plan is developed and implemented, andinitial financing is obtained. In this stage, the most critical needs, which are highly associated with a firm's survival, are sufficient funding and good cash flow (Adizes, 2004). However, businesses in the early stage are typically not able to generate positive cash flow. This could be particularly critical in the case of hospitality firms since the hospitality industry is characterized by a high level of capital intensity. This circumstance allows firms to be more dependent on creditors for financial resources. Accordingly, a key stakeholder in this stage would be creditors that supply financial capital. Therefore, firms that implement CSR in a way that fulfills the needs of creditors may receive profit from it. For example, companies should ensure the safety of investment, follow business ethics in repayment of loans, utilize resources properly, and offer reasonable opportunities for participation of creditors in policy decisions.

Growth stage

Firms in the growth stage of the life cycle have overcome the previously dominant concern for survival. Rather, firms in this stage are likely to engage in expansion opportunities (Jawahar & McLaughlin, 2001). With abundant cash holdings, firms may invest in CSR strategies in order to attract more investment from various stakeholders. At this stage, the source of funding for growth and expansion is not only creditors but also shareholders (Jawahar & McLaughlin, 2001). This could be particularly true in the case of publicly traded hospitality firms. CSR could be a crucial incentive for publicly traded hospitality firms, especially for investors with a long-term strategy who often prefer to invest in firms with more sustainable business practices than their competition. In this respect, firms need to place a bigger emphasis on CSR that corresponds to the needs of shareholders than they would in the previous stage. In addition, by this stage, the main area of concern for survival in the previous stage has been largely addressed, and firms are more likely to engage in expansion opportunities. To develop new markets and attract new customers, hospitality firms are encouraged to understand what customers want and respond quickly to their needs. To summarize, key stakeholders in this stage would be shareholders and customers that provide financial capital to the firm, and firms that accommodate the interest of shareholders and customers could receive benefits. Companies should meet those customer expectations by providing the right product, or services with desirable quality at the right time, right place, and fair price. For example, to appeal to the socially conscious traveler, El Nido Resorts in Indonesia took initiatives with constructing their properties with renewable materials, and their menu consists primarily of locally sourced ingredients.

Mature stage

The mature stage is often attended by strong cash flows, without particularly attractive investment opportunities (Jawahar & McLaughlin, 2001). In this stage of the firm, managers often regard the firm and themselves as successful, respected leaders in the industry. Although the growth rate is stagnant in this stage, firms are often characterized by the overconfidence of success, tempered with the uncertainty of the search for a new direction that could potentially lead the organization through another period of rapid growth. In light of the leadership image, overconfidence, and the absence of critical needs, firms in this stage are more likely to pursue risk-averse strategies (Jawahar & McLaughlin, 2001). Also, the market becomes saturated at this stage, and firms are more likely to keep loyal customers (Orcik et al., 2013). The existing academic research found that it costs five times more to attract a new customer than to keep an existing one (Holmlund & Kock, 1996). In this respect, they will need to focus on maintaining their successful business through increasing customer retention rates. Accordingly, a key challenge facing hospitality firms is how to retain and engage frontline employees who play an important role in influencing customer loyalty. Therefore, employees should be dealt with in a proactive manner, and substantial investment in training and development activities are encouraged in this stage. Further, companies should promote healthy and inclusive workplace cultures, which create environments in which their own employees can thrive and excel (Ledecky, 2020).

Decline stage

In this stage, the demand for a firm's products or services will be reduced, and managers feel pressure from stakeholders to consider implementing risk-taking strategies to confront this. Since this is a survival stage, pertaining to CSR practices could be framed from the context of losses. Nevertheless, some firms in this stage may actively undertake CSR to leverage reputational capital to make up for poor performance in the market. At this stage, as in the growth stage, customers and shareholders may be given proactive attention in an effort to build a new market or rebuild market share (Jawahar & McLaughlin, 2001). In this respect, a firm's CSR practices do not guarantee the financial benefits of the firm, but certain CSR activities such as the use of environmentally friendly cleaning agents and farm-to-table practices that correspond to the interests of customers and shareholders may appeal to those stakeholders and provide financial benefits to some extent.

Concluding remarks

Considering the increasing significance in the corporate world, CSR will continue to be an imperative element of hospitality businesses, evaluated by various stakeholders. Reflecting this trend, the case for CSR in the hospitality sector has been actively explored in recent years. Understanding the hospitality industry's unique characteristics that distinguish it from other industries, hospitality firms are advised to identify key stakeholders and fulfill their expectations in a balanced manner. Particularly, this article suggests that the identification of key stakeholders may vary depending on CLC since external and internal environments of an organization are likely to vary with the life cycle stage. Therefore, firms are encouraged to identify certain stakeholder groups who are likely to become more or less important at different life cycle stages.

Stakeholders are demanding strategic, values-aligned, and impactful CSR strategies. The time is now for hospitality firms to move beyond the generosity approach to targeted efforts with a focus on understanding the needs of stakeholders whom they wish to support. In this respect, with this piece of information, hospitality firms should consider how to make their CSR activities essential to their success in business.

Acknowledgments

I sincerely appreciate Mr. Hyoung Ju Song and the guest editors for their helpful and constructive comments.

References

Adizes, I. (2004). Managing corporate lifecycles. The adizes institute publishing.

Anderson, C. R., & Zeithaml, C. P. (1984). Stage of the product life cycle, business strategy, and business performance. Academy of Management journal, 27(1), 5-24.- DeFranco, A. L., & Lattin, T. W. (2006). Hospitality financial management. John Wiley & Sons.

Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach. Prentice Hall, Englewood Cliffs, NJ.

Hill, C. W., & Jones, T. M. (1992). Stakeholder‐agency theory. Journal of management studies, 29(2), 131-154.

Hilton. (2019). Hilton 2019 Corporate Responsibility Report. Retrieved from: https://cr.hilton.com/wp-content/uploads/2020/04/Hilton-2019-CR-Report.pdf

Holmlund, M., & Kock, S. (1996). Relationship marketing: the importance of customer-perceived service quality in retail banking. Service Industries Journal, 16(3), 287-304.

Jawahar, I. M., & McLaughlin, G. L. (2001). Toward a descriptive stakeholder theory: An organizational life cycle approach. Academy of management review, 26(3), 397-414.

Jones, T. M. (2016). Instrumental stakeholder theory: A synthesis of ethics and economics. The Corporation and Its Stakeholders, 205-242.

Ledecky, M. (2020). 5 Strategies socially responsible companies are using in their CSR initiatives. Everfi. Available at: https://everfi.com/blog/community-engagement/socially-responsible-companies/

McDonald's. (2019). Impact Strategy & ESG Reporting. Retrieved from: https://corporate.mcdonalds.com/corpmcd/our-purpose-and-impact/impact-strategy-and-reporting.html

Mackey, A., Mackey, T. B., & Barney, J. B. (2007). Corporate social responsibility and firm performance: Investor preferences and corporate strategies. Academy of management review, 32(3), 817-835.

Orcik, A., Tekic, Z., & Anisic, Z. (2013). Customer co-creation throughout the product life cycle. International Journal of Industrial Engineering and Management, 4(1), 43-49.- Wang, Q., Dou, J., & Jia, S. (2016). A meta-analytic review of corporate social responsibility and corporate financial performance: The moderating effect of contextual factors. Business & Society, 55(8), 1083-1121.