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Effects of Corporate Social Performance on Corporate Financial Performance: A Two-sector Analysis between the U.S. Hospitality and Manufacturing Companies

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ABSTRACT

This study aimed to compare the commonalities and differences of corporate social performance among a sample of U.S. hospitality and manufacturing companies, as well as to examine the impacts of corporate social performance on corporate financial performance in both industries. Using panel data from 1991 to 2013, the study primarily investigated significant differences in the environment, corporate governance, and diversity-related performance among companies in the sample. Among the results, the performance of employee relations and corporate governance was positively associated with short- and long-term financial performance among the hospitality companies. However, the community performance tended to influence the short-term financial performance and employee relations tended to influence the long-term financial performance of the manufacturing companies. The results clarify the complex correlations of corporate social performance and financial performance for hospitality researchers, as well as encourage hospitality practitioners to invest efficiently in improving the corporate social performance and thus corporate financial performance of their firms.

Keywords: Corporate social performance, Corporate financial performance, Hospitality industry, Manufacturing industry

I. Introduction

In 1946, 93.5% of business executives surveyed by *Fortune* agreed that businesspeople should have social consciousness (Bowen, 1953; Carroll, 1999). Given its significance, corporate social responsibility (hereafter CSR) has received increased attention and shown substantial development in literature on

management in recent decades (e.g., Holcomb, Upchurch, Okumus, 2007; Ryu, Chae, & Cho, 2017). Due to the inherent biases of defining a social construct, however, no universally accepted definition of CSR is available (Dahlsrud, 2008; McWilliams & Siegel, 2001). Of the various definitions of the term, a widely used one defines CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Bowen, 1953, p. 6). As a reflection of the management skills of companies, a wide range of stakeholders in companies have examined CSR’s significant influence on corporate

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performance (Alexander & Buchholtz, 1978). Among their findings, as Erhardt et al. (2003) has shown, the diversity of a company's board of directors positively relates to the company's financial performance. Regarding a company's improved reputation for being socially responsible, stakeholders perceive that companies manifest management skills that allow them to "exchange costly claims for less costly implicit charges" (McGuire et al., 1988, p. 855). Companies have thus implemented CSR-related initiatives in numerous economic sectors (Hartmann, 2011; Mutti et al., 2012; Wu & Shen, 2013). Among them, the hospitality sector and its firms, which simultaneously offer products (e.g., restaurant food entrees, hotel rooms, etc.) and services (e.g., restaurant table services, hotel housekeeping services, etc.), have actively invested CSR-related initiatives to grow sustainably and satisfy their socially conscious stakeholders. For example, McDonald's Coffee Sustainability Program supports global coffee production and fair trade by developing coffee supply chains and offering technical support to farmers in Guatemala and Central America with the expectation of promoting positive ethical, environmental, and economic outcomes for both McDonald's and society. However, the program's financial efficiency remains questionable considering its investment of more than \$6 million in technical assistance for farmers.

Similar doubts have influenced the longstanding debate regarding the relationship between CSR and financial performance. As an operational concept that measures the outcomes of CSR-related practices, corporate social performance (hereafter CSP) has been discussed in many empirical CSR-related studies; however, despite the expectations of practitioners that CSR-related initiatives will create considerable value, consensus on the impacts of CSP on corporate financial performance (hereafter CFP) does not exist. In discussing the inconsistent results of 84 empirical studies concerning the relationship of CSP and CFP, Lu et al. (2014) attributed such inconsistency to inconclusive trade-off mechanisms between the investments and financial returns of CSR-related initiatives. An alternative explanation

cites CSP's complex multidimensionality and heterogeneous measurements (Inoue & Lee, 2011), whereas another holds that industry-specific effects can significantly influence CFP (Cochran & Wood, 1984; Inoue & Lee, 2011). Given the importance of CSP's multidimensionality and industry-specific effects on interpreting CFP, along with the limited amount of literature addressing the debate in the hospitality industry (Lebe et al., 2014), we sought to investigate the heterogeneous relationships of CSP's dimensions and CFP by comparing hospitality companies with companies in another industry (i.e., manufacturing industry), as well as how industry-specific pressures upon stakeholders explain the inconsistent relationships between CSP and CFP. Hospitality companies encounter fierce market competition due to low barriers to entering the market, high similarity among products and services, and easily imitable marketing strategies. Although Porter and Kramer (2006) has suggested that the differentiation of companies, products, and services can increase a company's competitive advantage, McWilliams et al. (2006) has countered that differentiation created by CSR-related strategies would not help restaurant or hotel companies to generate competitive advantage in their monopolistically competitive industries. CSR-related strategies not only have a neutral impact on profit equilibrium (McWilliams & Siegel, 2001) but also cannot help to create a sustainable competitive advantage for companies in a competitive market because ready imitability erodes the abnormal returns afforded by differentiation (Reinhardt, 1998; Hoppe & Lehmann-Grube, 2001; McWilliams et al. 2006). To elucidate the effects of CSR-related strategies in the hospitality industry, we compared the industry to the manufacturing industry, given its disparate characteristics in process, product orientation, and investment in research and development (hereafter R&D), regarding their social performance and its effects on financial performance. In effect, our study contributes to literature on CSR by investigating industry-specific effects on multidimensional CSP-CFP relationships based on stakeholder theory and

the review-based view. Practically, it provides insights into the important and specific roles of CSR-related strategies in short- and long-term CFP in hospitality and manufacturing companies, and its results can help decision makers in the hospitality industry make better judgments within their complex, competitive market.

II. Literature Review

A. Corporate Social Responsibility and Corporate Social Performance

The concept of CSR is debatable (Carroll & Shabana, 2010; Saeidi et al., 2015). In his remarkable book *Social Responsibilities of the Businessman*, Bowen (1953, p.6) defines CSR as “the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” Bowen’s book highlighted the significance of CSR and influenced social movements (e.g., civil rights, women’s rights, etc.) throughout the 1950s and 1960s (Carroll & Shabana, 2010). In time, as the discussion of CSR shifted from addressing the social obligations of highly responsible firms to the pressures upon stakeholders, the linkage between CSR and financial performance became obscured (Lee, 2008).

Beyond CSR that assumes a socially responsible posture (Carroll & Shabana, 2010), several similar concepts have been discussed since the 1970s to form a comprehensive understanding of CSR. Among them, two important ones are corporate social responsiveness and CSP (Frederick, 1994). Corporate social responsiveness advances an additional degree from the position of assumed social responsibility to literal acts of achieving such responsibility (Carroll & Shabana, 2010; Frederick, 1994). In a sense, CSP can be interpreted as the measurable outcomes of CSR and corporate social responsiveness. Originally, the concept of CSR did not easily distinguish or specify the principle of legitimacy, the principle of

public responsibility, and the principle of managerial discretion (Wood, 1991). In response, CSP has overcome that setback in being “filled with the content of explicit value preferences that exist within a given cultural or organizational context and that are operationalized through the political and symbolic process of that context” (Wood, 1991, p.700). Discussions regarding CSP that have been popular since the 1970s, and in them, Wartick and Cochran (1985)’s definition of CSP as “a business organization’s configuration of principles of social responsibility, process of social responsiveness, and policies, programs, and observable outcomes as they related to the firm’s societal relationships” has often been cited. Being a contextual extension of CSR and corporate social responsiveness, CSP provides measurable and analyzable constructs to access the magnitude of implementations and outcomes of CSR-related strategies (Wartick & Cochran, 1985; Wood, 1991).

When stakeholders express their expectations of superior CSP, as stakeholder theory suggests, reciprocal relationships among stakeholders play a crucial role in determining a company’s future wealth (Choi & Wang, 2009; Freeman, 1999; Laplume et al., 2008). Brower and Mahajan (2013) has highlighted three possible reasons for that phenomenon. First, companies use improved CSP as a marketing tool to strengthen their relationships with stakeholders (Hoeffler et al., 2010). Second, CSP-related achievements can reflect whether companies meet stakeholders’ needs (Ruf et al., 2001). Third, consistent CSP helps companies to align with external stakeholders with similar values. By extension, from a resource-based view (Barney, 1991), once those rare, valuable relationships become inimitable and nonsubstitutable, they can generate competitive advantage (Brower & Mahajan, 2013; Ferrell et al., 2010). Practically, however, assessing multidimensional CSP relies heavily on reliable methods of measurement (Luo et al., 2015; Porter & Kramer, 2006). MSCI’s well-accepted ESG Ratings provide the annual environmental, social, and governance-driven CSP ratings of companies in the dimensions of the environment, corporate governance, community, diversity, employee relations, human

rights, and product. Because they comprehensively represent the multidimensionality of CSP that interests a wide range of stakeholders (e.g., government, public, managers, employees, and consumers), MSCI's ESG Ratings have been used in dozens of studies on CSR and CSP (Di Giuli & Kostovetsky, 2014; Lioui & Sharma, 2012; Tang et al., 2012). An alternative approach to assessing CSP is to survey or interview managers and consumers (Ditlev-Simonsen & Middtun, 2011; Kang et al., 2012; Luo et al., 2015); however, heterogeneous measurement methods and information sources can result in inconsistent findings concerning the relationships of CSP and CFP indicators (Luo et al., 2015). Because industry-specific effects can also directly influence CSP (Adams & Hardwick, 1998; Michelon & Parbonetti, 2012), we were interested in identifying dissimilarities in industry-specific CSP between hospitality and manufacturing companies. CSP is an operational outcome of CSR-related strategies, and the magnitude of CSP is largely determined by how much money a company invests in CSR-focused initiatives (Sparkes & Cowton, 2004). Consequently, companies from different industries are liable to make investments in order to initiate CSR-related strategies based on different purposes. Nevertheless, CSR-related strategies are commonly used to reduce negative social externalities and recover damaged corporate reputation (Brammer & Millington, 2005; Osemeke, 2012). For example, compared to oil and extraction industries that attempt to invest in CSR-related initiatives to salvage their declining reputation caused by irresponsible social behaviors, consumer-oriented industries often increase their CSP in order to strengthen their corporate image and boost sales (Cowen et al., 1987; Osemeke, 2012). Therefore, companies in service industries pay more attention to their employees and customers and devote more effort to the community (Godfrey et al., 2010). We have articulated that dynamic more formally in Hypothesis 1.

Hypothesis 1: The corporate social performance is significantly different between hospitality and manufacturing companies.

B. Relationship between Corporate Social Performance and Corporate Financial Performance

CFP reflects companies' operating outcomes and is therefore commonly discussed from accounting- and market-based perspectives (Inoue & Lee, 2011). Accounting-based performance measurements (e.g., return on assets and return on equity) indicate a company's short-term profitability and operating efficiency (Hull & Rothenberg, 2008; Zhao & Murrell, 2016), whereas market-based performance measurements (e.g., Tobin's Q and market-to-book ratio) represent a company's long-term profitability and operating sustainability (Luo & Bhattacharya, 2006; Zhao & Murrell, 2016). By similar contrast, whereas accounting-based performance measures focus on historical accounting data (McGuire et al., 1986) and sometimes encounter biases from different managerial accounting procedures, market-based performance measures largely overcome the shortcomings of accounting-based measures and represent the expectations of investors regarding a company's future profitability (McGuire et al., 1988).

Relationships between CSP and CFP have been discussed both theoretically and empirically and thus shown mixed trends. A meta-analysis by Margolis et al. (2007) reveals a positive relationship between CSP and CFP from 1972 to 2007, and their overall positive correlation has been documented by Flammer (2015) as well. By extension, that positive relationship can be interpreted in light of stakeholder theory and the resource-based view (Tang et al., 2012). According to stakeholder theory, on the one hand, companies are liable to consider the interests and welfare of different stakeholders, who can be affected by improved CSP due to enhanced corporate reputation, human capital, and innovation capability (Bird et al., 2007; Kang et al., 2010; Lee & Park, 2009; Tang et al., 2012). Investments in improving CSP can generate greater returns than their economic costs (Griffin & Mahon, 1997) and, in turn, enhance the company's core competence and financial performance (Wood & Jones, 1995). Maintaining a superior CSP can also

“benefit stakeholders with the ultimate goal of benefiting shareholders” (Flammer, 2015, p.3). The chief working channels of such efforts include attracting resources (Waddock & Graves, 1997), obtaining qualified employees, offering market products and services (Barnett & Salomon, 2006; Fombrun, 1996; Greening & Turban, 2000), and achieving innovative capability (Surroca et al., 2010). On the other hand, the resource-based view suggests that improved CSP can generate competitive advantage and superior financial performance by improving productivity and efficiency and attracting new socially conscious customers (Flammer, 2015, p.3). Moreover, the CSR strategies may positively influence the ease of accessing finance resources in capital market (Kawk & Choi, 2015).

By contrast, Friedman (1970) has detected a negative relationship between CSP and CFP. Maintaining the belief that a company’s ultimate goal is to maximize the wealth of shareholders (Kang et al., 2010), Friedman has argued that allocating resources to enhance CSP can ultimately weaken such wealth. Preston and O’bannon (1997) has furthermore posited that although reduced investment in CSR-related strategies can prompt short-term profitability, the incremental costs of CSR-related initiatives can result in competitive disadvantage for the company (Waddock & Graves, 1997). Another strand of literature on the topic supports the negative relationship between CSP and CFP in both the short and long terms (Cordeiro & Sarkis, 1997; Wright & Ferris, 1997), and a nonsignificant relationship between CSP and CFP has also been documented (Margolis et al., 2007; Ullmann, 1985; Waddock & Graves, 1997).

The multidimensionality of CSP and CFP measurements continue to cloud current understandings of CSP-CFP relationships (Inoue & Lee, 2010), and the different dimensions of CSP bear different influences on short- and long-term financial performance. In response, Schaltegger and Synnestvedt (2002) has proposed a dynamic framework for environmental sustainability and CFP, in which managerial costs are ultimately reduced via a dynamic process that involves identifying the restrictions, opportunities,

threats, and incentives and making strategies to achieve long-term goals. However, short-term profitability can be negatively affected as well. In that sense, external (e.g., regulations) and internal factors (e.g., managerial capability) can influence a company’s environmental performance and CFP (Ameer & Othman, 2012). The relationship between corporate governance and CFP is more complicated. Corporate governance can be partially defined as “a characteristic of the contract that governs relations between shareholders and managers” (Bhagat & Bolton, 2008, p.260). According to agency theory, operating costs increase along with incremental interest divergence among managers and shareholders (Grossman & Hart, 1983). Conversely, adverse selection theory argues that managers can use unobservable private information to generate short-term benefits by sacrificing shareholders’ welfare and the company’s long-term opportunities (Myerson, 1982). Companies with high corporate governance performance diffuse ownership to managers by adjustable incentive mechanisms, an act which motivates managers acting as shareholders by connecting their wealth to the company’s market value (Bhagat & Bolton, 2008). Meanwhile, the relationship between community involvement and CFP relies on a company’s excess cash (Sharfman et al., 1988). Decision makers can donate resource slack in a monetary or nonmonetary form (Seifert et al., 2004), while community involvement influences short-term CFP by saving taxes (Waddock & Graves, 1997). In the long run, improved community involvement positively affects brand image and creates additional market value (Brammer & Millington, 2008; Hillman & Keim, 2001). Moreover, performance enhancement in the aspects of diversity, employee relations, and human rights help companies to increase human capital productivity and organizational commitment among employees (Berman et al., 1999), which can boost revenue in the short term (Brammer & Millington, 2008; McWilliams & Siegel, 2001). However, long-term financial performance relies more heavily on the development of sustainable competitive advantage from heterogeneous and immobile resources (Barney, 1991). Improved CSP by way of improved diversity,

employee relations, and human rights significantly drive human resource management to the advanced level so that it positively links to long-term market-based financial performance (Becker & Gerhart, 1996; Brammer & Millington, 2008). Customers are always attracted to superior product quality, and CSP in products is therefore crucial to enhancing CFP both in short and long term due to boosted revenues (Waddock & Graves, 1997). It also strengthens a company's market valuation from the perspective of investors (Berman et al., 1999). We have more formally articulated those dynamics in Hypothesis 2 and Hypothesis 3.

Hypothesis 2: The corporate social performance dimensions are positively associated with short-term financial performance.

Hypothesis 3: The corporate social performance dimensions are positively associated with long-term financial performance.

Companies in different industries are liable to bear different pressures from different stakeholder groups. For example, the U.S. restaurant industry, considered to be as labor intensive as any part of the hospitality industry, hired 14.4 million employees in 2016 (National Restaurant Association). The financial performance of restaurant companies is therefore influenced by employee satisfaction mediated by customer satisfaction (Chi & Gursoy, 2009). In the hotel industry, the relationship between employee satisfaction and guest satisfaction is similarly clear (Spinelli & Canavos, 2000). In the hospitality industry, customer satisfaction and financial performance can thus both be improved by increasing employee satisfaction. Consequently, the employees in the industry form the key stakeholder group. By contrast, the manufacturing industry, which produces measurable products with standardized processes (Prajogo, 2005), faces pressures from different key stakeholder groups. For instance, environmentally oriented social responsibility is crucial in the manufacturing industry, and poor environmental performance can easily generate a negative reputation for companies in the industry (Konar & Cohen, 2001).

Therefore, we predict that the hospitality industry and manufacturing industry have different key dimensions of CSP that are significantly associated with financial performance.

III. Method

A. Models

To examine the relationships between CSP and CFP in a sample of companies in the hospitality and manufacturing industries, we developed Model 1 and Model 2, which employ as dependent variables the return on assets (ROA) and Tobin's Q, respectively. ROA is an accounting-based performance measure used to measure a company's short-term profitability and operating efficiency (Hsu & Jang, 2007; Hull & Rothenberg, 2008). Conversely, Tobin's Q is a market-based performance measure that represents a company's capability to generate future profits in the market (Luo & Bhattacharya, 2006). The independent variables consist of seven CSP dimensional measures, and the control variables include firm size, financial leverage, R&D ratio, and PP&E ratio (Chang, Kim, & Li, 2014; Waddock & Graves, 1997). The error terms contain unexplained variances of CFP, time-invariant errors (Greene, 1993), and time-variant errors (Osemeke, 2012). In order to mitigate the endogeneity, we employ the lagging independent and control variables. The models are presented in Model 1 and 2.

Model 1.

$$ROA_{i,t} = \alpha_0 + \alpha_1 EN_{i,t-1} + \alpha_2 CG_{i,t-1} + \alpha_3 CM_{i,t-1} + \alpha_4 DI_{i,t-1} + \alpha_5 EM_{i,t-1} + \alpha_6 HU_{i,t-1} + \alpha_7 PR_{i,t-1} + \alpha_8 Controls_{i,t-1} + \varepsilon_{i,t}$$

Model 2.

$$Tobin'sq_{i,t} = \beta_0 + \beta_1 EN_{i,t-1} + \beta_2 CG_{i,t-1} + \beta_3 CM_{i,t-1} + \beta_4 DI_{i,t-1} + \beta_5 EM_{i,t-1} + \beta_6 HU_{i,t-1} + \beta_7 PR_{i,t-1} + \beta_8 Controls_{i,t-1} + \zeta_{i,t}$$

Where:

- EN* = Environment performance
CG = Corporate governance performance
CM = Community performance
DI = Diversity performance
EM = Employee relations performance
HU = Human rights performance
PR = Product performance
Controls = Firm size, financial leverage, R&D ratio, and PP&E ratio

B. Data, Sample, and Measures

Data for the two subsamples were collected from the hospitality and manufacturing sectors from 1991 to 2013. Since the manufacturing sector consists of more subcategories and has significantly more companies than the hospitality sector, we randomly selected a subcategory (i.e., NAICS Section 33) to represent the manufacturing sector. Section 33 of the North American Industry Classification System (NAICS) includes primary metal manufacturing, fabricated metal product manufacturing, machinery manufacturing, computer and electronic product manufacturing, electrical equipment, appliance, and component manufacturing, transportation equipment manufacturing, furniture and related product manufacturing, and miscellaneous manufacturing. We retrieved hospitality data by referring to Section 72 (i.e., accommodation and food services) of the NAICS.

CSP rating data were retrieved from MSCI's ESG Ratings database, which has provided annual CSP ratings since 1991 in a comprehensive scope. Until 2013, the ESG Ratings have encompassed seven dimensions of CSP with more than 60 indicators from the largest 3,000 U.S. publicly traded companies. The seven dimensions of CSP are environment, corporate governance, community, diversity, employee relations, human rights, and product. As mentioned, we established our models' independent variables based on those seven dimensions of CSP. Random sampling was used to manipulate comparable numbers of observations between the two subsamples. The ready-to-use samples contained 386 firm-year observations

from 49 hospitality companies and 462 firm-year observations from 34 manufacturing companies.

MSCI's EGS Ratings database uses the number of the strengths or concerns under each dimension of CSP to indicate CSP's positive or negative magnitudes, respectively (Kang et al., 2010). However, using those rating scores to identify CSP remains questionable (Chatterji et al., 2009; Márquez & Fombrun, 2005). For example, some studies have used the weighted average scores of multiple ratings of dimensions of CSP to aggregate multidimensional CSP into a single indicator (Waddock & Graves, 1997; Zhao & Murrell, 2016). Although that approach has been widely cited, it did not suit the purpose of our research to investigate the effects of CSP's multidimensionality on CFP. Alternatively, we employed the number of strengths under each dimension of CSP to represent the significant efforts and positive outcomes driven by improving the corresponding dimension of CSP, which allowed us to measure only the actual positive efforts in which companies have engaged instead of considering the negative side simultaneously. They were used as the independent variables in Models 1 and 2. By controlling for firm size, financial leverage, R&D ratio, and PP&E ratio, measurements of CSP assess the overall positive CSP of companies and the influential capacities of their stakeholders. To measure the dependent variable, CFP, we used ROA and Tobin's Q. ROA divided net income by total assets (Zhao & Murrell, 2016), and Equation 1 was used to calculate Tobin's Q (Daniel & Titman, 1997). Firm size was measured by the natural logarithm of total assets, whereas financial leverage was measured as the liability-to-equity ratio. R&D ratio was measured as R&D-to-total asset ratio, whereas PP&E ratio was measured as PP&E-to-total asset ratio. All raw financial data were collected from Compustat's annual database.

Tobin's $q =$

$$\frac{(\text{Total Assets} + \text{Market value of Equity} - \text{Book Value of Equity})}{\text{Total Assets}}$$

Equation (1)

Before conducting regression analysis, it was necessary to diagnose multiple key assumptions. First, the normality test was used to check the univariate distributions of the dependent variables. The kernel density estimate graphs of ROA and Tobin's Q were observed to help to reduce any possible outliers. Based on the kernel density graphs, we removed the possible outliers with relatively large absolute values that could affect their distributions and improved the normality by transforming to the natural logarithm. Second, multicollinearity was examined by using VIF. Since all VIF values from the models were lower than the cutoff value of 10, the models likely did not encounter severe multicollinearity. Last, we removed any companies that had data for only one year.

IV. Results

A. Descriptive Statistics in the Hospitality and Manufacturing Samples

Table 1. presents the descriptive statistics summary in the hospitality and manufacturing samples. Diversity (Mean= 1.15, S.D.= 1.51) has the highest average score

Table 1. Descriptive Statistics Summary

| | Hospitality Sample | | Manufacturing Sample | |
|----------------------|--------------------|------|----------------------|------|
| | Mean | S.D | Mean | S.D |
| ROA | 0.06 | 0.08 | 0.02 | 0.17 |
| Tobin's Q | 2.13 | 1.19 | 1.89 | 1.00 |
| Environment | 0.21 | 0.56 | 0.75 | 0.97 |
| Corporate governance | 0.10 | 0.34 | 0.27 | 0.48 |
| Community | 0.18 | 0.52 | 0.19 | 0.47 |
| Diversity | 1.15 | 1.51 | 0.45 | 0.79 |
| Employee relations | 0.39 | 0.78 | 0.35 | 0.74 |
| Human rights | 0.02 | 0.13 | 0.02 | 0.19 |
| Product | 0.10 | 0.31 | 0.12 | 0.34 |
| Firm size | 7.51 | 1.56 | 7.89 | 1.82 |
| Financial leverage | 3.06 | 8.97 | 2.21 | 7.12 |
| R&D ratio | 0.00 | 0.00 | 0.04 | 0.05 |
| PP&E ratio | 0.62 | 0.20 | 0.21 | 0.12 |

among the hospitality corporate social performance dimensions. The manufacturing sample averagely performs best on environment (Mean= 0.75, S.D.= 0.97). The two samples have similar average firm size. The hospitality sample enjoys the higher short-term and long-term average financial performance, compared with the manufacturing industry

B. CSP Comparisons between Hospitality and Manufacturing Samples

We used statistical software SPSS 24 to conduct the independent sample t-test to examine if it exists the significant mean differences of the seven CSP dimensions between the hospitality and manufacturing samples. We measured the mean differences by subtracting the CSP mean scores of the manufacturing sample from the CSP mean scores of the hospitality sample under each CSP dimension. Table 2 demonstrates the testing results, which show the CSP dimensions of the environment, corporate governance, and diversity have the significant mean difference between the hospitality and manufacturing samples. Specifically, the hospitality sample has the significantly higher diversity mean score than the manufacturing sample (Mean Difference= 0.70). However, the mean value of the environment (Mean Difference= -0.54) and corporate governance (Mean Difference= -0.18) in the hospitality sample are significantly lower than

Table 2. Independent t-test results

| | Mean Difference | S.E. | t-value | P-value |
|--------------------------|-----------------|------|---------|---------|
| CSP-Environment | -0.54 | 0.06 | -9.65 | 0.00** |
| CSP-Corporate governance | -0.18 | 0.03 | -6.11 | 0.00** |
| CSP-Community | -0.02 | 0.03 | -0.36 | 0.72 |
| CSP-Diversity | 0.70 | 0.08 | 8.58 | 0.00** |
| CSP-Employee relations | 0.05 | 0.05 | 0.86 | 0.12 |
| CSP-Human rights | -0.01 | 0.01 | -0.46 | 0.34 |
| CSP-Product | -0.02 | 0.02 | -0.79 | 0.11 |

Note: ** $p < 0.05$, two-tailed t-test

the manufacturing sample at the significant level of 0.05. Since other CSP dimensions (i.e., community, employee relations, human rights, and product) do not present significant mean differences, Hypothesis 1 is partially supported.

C. Relationships between CSP and CFP

We conducted regression analysis to examine Hypothesis 2 and Hypothesis 3. The coefficient estimates from Pooled OLS regression would be biased to reflect the group heterogeneities because the error terms contain independent variables' individual effects (Osemeke, 2012). We thereby did not report the regression results from Pooled OLS. The fixed effects estimators and random effects estimators work well on reducing the bias from the omitted variables (Osemeke, 2012; Stock & Watson, 2007). We consider the year-fixed effect and firm-fixed effect when regress Model 1 and 2. Table 3 and Table 4 present the testing results. The employee relations performance significantly and positively relates to the return on assets (Coefficient= 0.008, $p<0.05$) and Tobin's Q

(Coefficient= 0.101, $p<0.01$) at a significant level of 0.05 in the hospitality sample. The corporate governance performance significantly and positively relates to the return on assets (Coefficient= 0.025, $p<0.05$) and Tobin's Q (Coefficient= 0.100, $p<0.10$) in the hospitality sample. In the manufacturing industry, the community performance significantly and positively relates to the return on assets (Coefficient= 0.013, $p<0.10$) at a significant level of 0.10, and the employee relations performance significantly and positively relates to Tobin's Q (Coefficient= 0.041, $p<0.10$) at the significant level of 0.10. The two models are overall significant at a level of 0.05 in hospitality and manufacturing sample. Therefore, Hypothesis 2 and Hypothesis 3 are partially supported.

V. Discussions and Conclusions

According to MISC's ESG Ratings database manual, diversity-related performance encompasses the aspects of chief executive officer, promotion,

Table 3. Fixed effects Hypothesis Tests in the Hospitality Sample

| Dependent variable | Ln [1+ROA(<i>t</i>)] | | | Ln [Tobin's Q(<i>t</i>)] | | |
|---|------------------------|-------|---------|----------------------------|--------|---------|
| | Coefficient | S.E. | P value | Coefficient | S.E. | P value |
| CSP-Environment (<i>t-1</i>) | -0.003 | 0.005 | 0.521 | -0.067 | 0.047 | 0.154 |
| CSP-Corporate governance (<i>t-1</i>) | 0.025 | 0.007 | 0.001** | 0.100 | 0.058 | 0.084* |
| CSP-Community (<i>t-1</i>) | -0.002 | 0.006 | 0.762 | 0.028 | 0.057 | 0.627 |
| CSP-Diversity (<i>t-1</i>) | 0.000 | 0.002 | 0.984 | -0.009 | 0.019 | 0.639 |
| CSP-Employee relations (<i>t-1</i>) | 0.008 | 0.004 | 0.041** | 0.101 | 0.035 | 0.004** |
| CSP-Human rights (<i>t-1</i>) | 0.014 | 0.016 | 0.382 | -0.058 | 0.147 | 0.695 |
| CSP-Product (<i>t-1</i>) | -0.003 | 0.009 | 0.775 | 0.070 | 0.080 | 0.393 |
| Firm size (<i>t-1</i>) | -0.005 | 0.005 | 0.307 | -0.191 | 0.043 | 0.000** |
| Financial leverage (<i>t-1</i>) | -0.001 | 0.000 | 0.050** | -0.002 | 0.002 | 0.415 |
| R&D ratio (<i>t-1</i>) | 7.374 | 5.165 | 0.155 | -0.198 | 47.297 | 0.997 |
| PP&E ratio (<i>t-1</i>) | -0.030 | 0.029 | 0.313 | -0.586 | 0.240 | 0.015** |
| Constant | 0.115 | 0.040 | 0.004** | 2.385 | 0.331 | 0.000** |
| Overall fit | F(11,241)=2.81** | | | F(11, 269)=4.77** | | |
| Overall R-Square | 0.1306 | | | 0.0356 | | |

Note: ** $p<0.05$; * $p<0.1$

Table 4. Fixed effects Hypothesis Tests in the Manufacturing Sample

| Dependent variable | Ln [1+ROA(<i>t</i>)] | | | Ln [Tobin's Q(<i>t</i>)] | | |
|---|------------------------|-------|---------|----------------------------|-------|---------|
| | Coefficient | S.E. | P value | Coefficient | S.E. | P value |
| CSP-Environment (<i>t-1</i>) | -0.001 | 0.003 | 0.876 | -0.011 | 0.017 | 0.513 |
| CSP-Corporate governance (<i>t-1</i>) | 0.003 | 0.006 | 0.698 | 0.027 | 0.031 | 0.397 |
| CSP-Community (<i>t-1</i>) | 0.013 | 0.008 | 0.088* | 0.050 | 0.037 | 0.176 |
| CSP-Diversity (<i>t-1</i>) | 0.000 | 0.004 | 0.999 | 0.022 | 0.020 | 0.265 |
| CSP-Employee relations (<i>t-1</i>) | 0.001 | 0.004 | 0.763 | 0.041 | 0.022 | 0.072* |
| CSP-Human rights (<i>t-1</i>) | -0.004 | 0.021 | 0.847 | 0.011 | 0.104 | 0.919 |
| CSP-Product (<i>t-1</i>) | 0.011 | 0.009 | 0.209 | -0.030 | 0.045 | 0.499 |
| Firm size (<i>t-1</i>) | -0.015 | 0.005 | 0.001** | -0.095 | 0.022 | 0.000** |
| Financial leverage (<i>t-1</i>) | 0.000 | 0.000 | 0.393 | 0.001 | 0.001 | 0.479 |
| R&D ratio (<i>t-1</i>) | -0.067 | 0.210 | 0.75 | 2.231 | 0.799 | 0.005** |
| PP&E ratio (<i>t-1</i>) | -0.194 | 0.051 | 0.000** | -0.705 | 0.238 | 0.003** |
| Constant | 0.213 | 0.041 | 0.000** | 1.276 | 0.200 | 0.000** |
| Overall fit | F(11, 341)=3.14** | | | F(11, 341)=3.53** | | |
| Overall R-Square | 0.0609 | | | 0.0541 | | |

Note: ** p<0.05; *p<0.1

gender distribution on the board of directors, work-life benefits, the contracting of women and minorities, policies for employing disabled, gay, and lesbian workers, the employment of underrepresented groups, and other diversity-related aspects of performance. Our results reveal that hospitality companies had better diversity-related performance than companies in the manufacturing industry. Joshi and Roh (2009) found that diversity in the service industry had the greatest positive impact on company performance, which was not the case in the manufacturing and technology industries. The service-oriented hospitality industry is known for, and arguably unique, as a geographically dispersed, labor-intensive industry with a high turnover rate. Hospitality operating units are diversely located, and massive local job demand from each business unit makes the workforce exceptionally diverse at the corporate level. More importantly, hospitality employees heavily interact with customers given the nature of the business. Compared with tangible products in the manufacturing industry, employees' services in the hospitality industry significantly inform customers' perceptions in hospitality companies. Increased diversity among employees offers the companies a

larger pool of highly qualified job candidates at a lower cost (Niederle et al., 2013). According to Singal (2014), workforce diversity can enhance employee performance and satisfaction by way of employee-company identification and foster a better quality of interaction between employees and customers (Koys, 2001; McKay et al., 2009). Such companies develop a broader information network and capture innovative sources from workforce diversity (Bantel & Jackson, 1989; Ortlieb & Sieben, 2013; Williams & O'Reilly, 1998), and external pressures, especially from regulators and legitimacy, reinforce the diminishment of workforce discrimination, although pressure from such regulations affects companies in the manufacturing industry as well.

Even so, the effect of diversity-related performance on corporate performance in the hospitality industry has not been extensively tested (Singal, 2014), and previous studies on the topic have shown inconsistent results (e.g., Herring, 2009; Kochan et al., 2003; Van Knippenberg & Schippers, 2007). Our findings did not conclude a significant result for the relationship between diversity-related performance and financial performance related. Aside from significant monetary

benefits due to improving diversity-related performance, initiating diversity programs to that end is costly. Companies have to spend a great deal on training employees, modifying relevant corporate policies, and accommodating a diverse workforce, especially if employees have disabilities (Singal, 2014). Thus, the mixed impact of enhancing workforce diversity on financial performance is insignificant in both industries.

Our results show that the performance of employee relations has a significantly positive relationship with ROA and Tobin's Q among hospitality companies. MISC's ESG Rating database manual demonstrates that performance scores for employee relations include the performance of union relations, a no-layoff policy, cash profit sharing, employee involvement, the strength of retirement benefits, employee health and safety, supply chain labor standards, compensation and benefits, employee relations, professional development, and human capital management. The performance of well-developed employee relations benefits current and retired employees, as well as employees seeking professional development opportunities and those with health and safety concerns. Hospitality companies are featured as labor intensive and involve heavy workload and stress, low pay, and a high rate of employee turnover. Internally, hospitality companies encounter pressures from employees who pursue higher benefits and development opportunities, while externally they bear pressures from stakeholders concerned with social welfare equality. The improved performance of employee relations helps hospitality companies to retain dedicated employees, which boosts their financial performance. Moreover, the hospitality industry is in a highly competitive market due to low barriers to entry and low costs of switching. Improving the performance of employee relations, however, can contribute to high employee-company identification (Kim et al., 2010) and positive employee organizational commitment mediated by their perceptions of procedural justice. Strong performance in employee relations also improves the job satisfaction and retention of employees (Turban & Greening, 1997), helps companies to develop differentiated

core competencies, reduces the operating risks of adverse events, and thereby sustains competitive advantage (Godfrey, 2005; Rhou et al., 2016). The performance of employee relations had a significantly positive relationship with Tobin's Q among manufacturing companies.

Our results indicate that the performance of corporate governance has a significantly positive relationship with ROA and Tobin's Q among hospitality companies. Although corporate governance issue is not unique to hospitality companies, it is significantly related to the hospitality businesses' success. Based on the agency theory, the managers' personal interest and goals are usually difficult to align with shareholders' benefits. The hospitality companies involve with a significant real estate property and fixed assets (Park, 2017). When the hospitality management and ownership separated, the conflict of interest between the managers and shareholders occur. Managers may focus on customer relationships, while shareholders may more focus on the desired returns. Therefore, if the hospitality companies perform well on the corporate governance, it indicates the companies may have a lower agency cost so that leads to a better financial performance in both short- and long-term.

Our results additionally reveal that environment-related performance achieved a superior score among dimensions of CSP in the manufacturing sample and was significantly greater than the mean score among hospitality companies. Manufacturing companies have paid considerable attention to improving environment-related performance not only because of the industry's existing negative impacts on environmental sustainability but also because some manufacturing companies are moreover clients of initiating environmentally sustainable technologies, if not also developers of related innovative technologies. Those increasing demands have enhanced the R&D processes of environmentally friendly technologies, and the externalities benefit the entire society at large. However, we did not find a significant relationship between environmental performance and manufacturing companies' financial performance. Our results indicate

that the performance of community has a significantly positive relationship with ROA among manufacturing companies. Building a strong relationship between the community, the manufacturing companies may obtain more local resources, such as the local demand and labor. These advantages can help the manufacturing companies to improve their operational efficiency and a better short-term financial performance.

Our study contributes to the literature in several ways. First, we compared CSP-related differences between a sample of hospitality companies and manufacturing companies, and such a comparison confirmed the industry-specific effect proposed by prior studies (Dos Reis et al., 2007; McMahon, 2011). As a service-oriented and labor-intensive industry, the hospitality industry pursues human capital as a vital factor. Realizing the development and improvement of employee relations and corporate governance can enhance financial performance, and hospitality companies tend to invest more in employee relations and corporate governance programs in order to formalize their core competency for their short- and long-term financial success. Second, our results can guide decision makers in hospitality companies in investing in CSR-related initiatives. The improvement of employee relations and corporate governance may satisfy the stakeholder theory claim of hospitality companies. Moreover, the hospitality industry-specific effects from the corporate social performance dimensions on the short- and long-term financial performance may provide a guideline for the investment portfolio.

The study involved three major limitations. First, this study used strength score as the proxy of corporate social performance under each dimension, rather than considered the concern scores and total scores. Therefore, this study only focuses on the positive corporate social performance. We may examine the effect of CSP concerns and the overall effect in future studies. Second, this study primarily discussed the effect of different CSP dimensions in the hospitality sector and manufacturing sector, respectively. In the future study, we would like to investigate this topic in a larger scope (i.e., B2C and B2B industries),

by including more representative sectors in the new sample. Third, the CSP scores present fewer normality-related characteristics because the data were based on the numbers of counts and missing data. Since the MISC's ESG Rating database is a well-used data resource for tracking CSP on a large scale, we made a compromise in order use it, which future studies should note.

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