

## COMPANY'S BENEFITS IN CORPORATE SOCIAL RESPONSIBILITY IN HOSPITALITY INDUSTRY

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### ABSTRACT

The application of CSR in service oriented industries like tourism, restaurant and hotel are considered important because of their direct relation with the environment or their high energy consumption. Through this thesis, author wants to encourage managers in hospitality industries to adopt CSR in its business, by giving an explanation and clearance of how company can received many benefits by applying CSR into its business. The goal of this thesis is determine a real connection between implementation of CSR and company's benefits. In order for company to gain these benefits, managers need to ponder some considerations to pursue a better company's future performance. In this thesis writer will use literature review method to gather all necessary data that can help determine the relationship of CSR implementation and company's benefits

### Key words:

CSR, Hospitality Industries, Corporate Social Responsibility, Financial Benefit, Non-Financial Benefit.

### INTRODUCTION

It is almost impossible today for a large international company to be without a Corporate Social Responsibility (CSR) policy (Franklin, 2008). Due to worldwide increase in environmental awareness, many organizations believe it is their responsibility to protect the environment (Natrass and Altomare, 1999). Increase in environmental awareness means all stakeholders these days demand a complete, clear, relevant, and accounted activity related with report from the company.

Corporate Social Responsibility (CSR) itself described as "The continuing commitment by business to behaving ethically and contributing to economic development while improving the quality and society at large" (Ronald R. Sims, 2003). The application of CSR in service oriented industries like tourism, restaurant and hotel are considered important because of their direct relation with the environment or their high energy consumption. Another reason for hospitality industry to adopt CSR is because of the increase in environmental demand from the customer (stakeholder) itself. The rising environmental awareness makes stakeholders become more critical when choosing company they will spend their money on (Natrass and Altomare, 1999).

CSR is linked to the belief that acting as a responsible organization leads to a profitable and good business (Burke & Logsdon, 1996). For example, Stuart E. Levy,

(2011) state that: "*Some hotel executives reported that cost savings and branding-related outcomes were the greatest benefits from CSR implementation (p. 147)*". This statement indicates that there is a relationship between applying CSR and company's benefit. Another statement that also supports the idea of a positive relationship between applying CSR and company's benefits comes from Garriga & Melé, (2004), "*CSR orientation not only contributes to the common good of society but can engage employees, connect with consumers, boost profits, and even stave off regulatory threats from government (p. 147)*".

The company's benefits (financial or non-financial) from applying CSR in hospitality industry are the main focus in this thesis. By showing how CSR contributes benefits towards the company hopes that it will encourages manager in hospitality industry of its needs to adopt CSR and also disclose the beneficiary from applying CSR into business. Inefficiency in managing the environment related business activities can lead into the pollution problem, sagging company reputation, dissatisfaction customer and employee, and high remedial cost of polluted environment. Hospitality Industries are clearly not a kind of an environmentally friendly business and therefore must be more environmentally responsible by taking positive steps to become an environmental friendly business sector (Worldwatch Institute, 2002).

Hospitality Industries are known for its high energy consumptions and waste or pollutant generated (The World Bank Group, 1999). The way hotel deal with ecological issues can affect their long-term competitiveness (Dow Jones Indexes, 2009; Holcomb et al., 2007); therefore applying CSR is crucial and beneficiary at the same time for Hospitality Industries.

Through this thesis, author wants to encourage managers in hospitality industries to adopt CSR in its business, by giving an explanation and clearance of how company can received many benefits by applying CSR into its business.

This research project is guided by the main research question, which has been formulated as follows "What are the impacts of implementing CSR in hospitality industries in regards to the company's benefits?" This research focused on Hospitality Industries because we want to know how application of CSR can bring benefit towards Hospitality Industries.

In order to answer the main research question, the following sub-questions have been articulated "What is the evidence in the literature on the relationship between company's benefits and the application of Corporate Social Responsibility in Hospitality Industries". Through this sub question we want to make sure that there really were a connection between application of CSR and company's benefit. Another sub-question for this research is: "Which company's benefits are categorized as financial benefits or non-financial benefits?". This sub-question will give us the information for what kind of benefits from applying CSR that can be collected by company whom applied it.

#### **THEORY OF SUPPLY AND DEMAND**

In the Hospitality Industries, there are two major demands for CSR; the first one is customer demand and the other one is demand from the stakeholder like investors, employees and the community, (Abigail McWilliams and Donald Siegel, 2001, p. 119). An industry that has a close relationship with environment like hospitality industry is more likely to encourage itself for immediate implementation of CSR to answer the demand from their stakeholder

Some hotel managers said that applying CSR means the company needs to maintain the sustainable of the environment like adopting green environment policy and contributing in a sustainability environments program beside operating in daily basis and

gaining profit. If a hotel cannot respond the demand from the customer they shall be out of business, (David Njite, Murat Hancer and Lisa Sletvich, 2011, p. 189).

There is a possibility that the cost of CSR implementation is high, thus, there is a need for hotel managers to find the balance between the supply and demand of CSR related activity. The supply for providing the eco-friendly product or services by implementing CSR activities and the demand to answer the request from its stakeholder must be well balanced, otherwise it will out-balanced each other and might impact the continuity of the hotel. For example, if a company is providing too much CSR initiatives, it will negatively affect the company's profit and financial condition, because creating and implementing CSR initiatives needs money and investments. This is a similar situation as selling meat ball to the vegetarian community, which is producing or creating product that do not meet the demand of the customer, (Gunae Choi, H.G. Parsa, Marianna Sigala and Sanjay Putrevu, 2009, p. 99)

#### **METHODOLOGY**

Throughout this thesis, the author will use the Literature review method. Literature reviews is a critical analysis on relevant scholarly materials that include searching, reading, analyzing, comparing, evaluating, summarizing and synthesizing and it could give a theoretical base for your own research paper. Through this literature review, the research for relevant materials comprises the following range of media:

- Articles from Journals are the main source in this research project
- Newspaper and magazine articles
- Books (reference books, text books)
- Other type of information: i.e. websites

##### **i. Journals**

The following journals provided most of articles that are included in this research project:

- Journal of Sustainable Tourism
- Journal of Hospitality and Tourism Management
- Journal of Quality Assurance in Hospitality & Tourism
- Business Environmental Responsibility
- Corporate Social Responsibility in Hotel Industry
- Strategic Implications of Corporate Social Responsibility in Hotel Industry
- The Journal of the Royal Anthropological Institute

- An International Journal of Tourism and Hospitality Research
- Tourism and Hospitality Research
- International Journal of Hospitality & Tourism Administration

## ii. Keywords

In order to retrieve the relevant articles, the following key words and abbreviations have been used in various combinations:

- CSR in Hospitality Industries
- CSR Factors in Hotel industries
- Environmental Responsibility in Hotel Industries
- Corporate Social Responsibility in Hotel
- Corporate social responsibility (CSR),
- Sustainability, CSR activities,
- Importance-performance analysis,
- Hotels
- CSR cost benefit in hotel
- CSR; Financial benefit; Hospitality

## iii. Search Engines

The following search engines have been used to identify abstract summaries of relevant articles:

- EBSCO
- Science Direct
- J-STOR
- Google Scholar
- Emerald
- Springer

## iv. Selection criteria and selection procedure

Selection of articles has been done through some steps, first searching articles by entering the key words into the search engines, founded articles are sorted by reading its Introduction and Abstract. The next step was store and kept the related articles for further use, through this step dozens of articles are managed to be collected. The next step was summarizing and collecting information through reading all of the collected articles, information about both financial and non-financial benefits in hospitality industries that applied CSR are used for further research, and supported by information about the procedure on how to calculate the financial benefits.

## RESULT AND ANALYSIS

Hospitality Industry is a service oriented business that relies heavily on sustainability level of the surrounding environment. Hospitality Industry gains its profit by offering and selling the beauty of natural resources on earth with hospitality services for their potential customers. As a consequence, it is important for Hospitality Industries to engage with Corporate Social Responsibility (CSR) activities, not only to

maintain the attractiveness of the environment but also to gain the benefits of being a responsible company

Hotel Industry is categorized as a smokeless sector that operates similar to the ordinary household, but in a much larger scale. Smokeless sector here means this typical industry does not produce significant air pollution. However in its daily operation, hotel industry consumes a lot of natural resources like water, electricity and food in order to meet the customers' demand.

World Business Council for Sustainable Development; describes CSR as "The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life, of the workforce, and their families, as well as of the local community and society at large (1999 p.3)".

From the definition above it can be summarized that, CSR is a one great commitment to engage in social responsibility by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risk in order to create a long-term shareholder value.

The author will explain the issue of the relationship between CSR and company's benefits of the company, what kind of benefits (financial or non-financial) that the hotel management received by applying CSR into their business will be described one by one.

### A. NON-FINANCIAL BENEFITS

#### I. Enhancing company's image

##### a. Environmental concern enhance company's image

Hospitality industry's survival power depends on its ability to minimize the negative impact towards environment and societies. Poorly planned business development may lead to environment destruction, as the natural resources become polluted, degraded and loses its aesthetic qualities. It will negatively affect the tourism destination, thus disturb the growth of hospitality industry, (Azilah Kasim and Cezar Scarlet, 2007, p. 8). To explain this matter further, water bodies is taken as an example. Water bodies such as rivers, lakes and the sea are major assets of attractiveness for a hotel or tourism industries in general, therefore keeping

the water as clean and as natural as possible will have an added value for the company, (Azilah Kasim and Cezar Scarlet, 2007, p.11). The more company pays attention on their surroundings, the more sustainable the environment will be and therefore, rising company's value.

By applying CSR into hospitality business, companies are 'forced' to take into account the environmentally friendly concept and therefore will gradually increase their business value. In order to safe guard the environment for business activity, it needs other considering factors, such as government and cooperation of community members, which are important to support this mission, (Gladwin, 1993; Porter and van der Linde, 1995. Timothy Forsyth, 1997, p. 271-272).

b. Considerations

In order to become an environmentally concern business, companies must take some considerations below; the first consideration regarding environmental concern is about CSR disclosure. In order to fully adopt CSR practices, hospitality managers need to know how to disclose and report their activity.

Another consideration is about the regulation of activity; Gladwin, (1993); Porter and van der Linde, (1995) stated that there is a fear within the companies in order to be environmentally responsible. Managers now worry that once their companies follow the codes of environmental law, their profit might be beaten by companies that do not (free riders company).

II. Product Differentiation

a. Product Differentiation as the form of green labeled product

Nowadays, customer are becoming more sophisticated, they are eager to the new principles, new labels and technologies. Customer's sophistication growth is simultaneously grows with the growth of environmental awareness. Therefore the more sophisticated customer become, the more they concern about the society.

CSR can also be used as one way to achieve product differentiation, because CSR regulation actually allowed company to create some "greed labeled" products. For example, the label of "organic, pesticide-free" in the food industry will indicates the use of environmental friendly processes in their production, therefore

aware its customer about the efforts that the company has made to produce such "green label" product.

Hotel customer may assume that High Reputation, Reliable and Honest hotel must be producing high quality product. High Reputation, Reliable and Honest are CSR attributes; so company which titled with CSR attributes proved how trustworthy the company really is and allowed to charge at a premium price for their efforts of sustainability.

b. Considerations

To consider product differentiation as one of CSR benefits, company must take some external factors into account. The factors like; taste and preference, the availability of substitute products, demographics condition and the most important factors is customer awareness of CSR attributes, (Abigail McWilliams and Donald Siegel, 2001, p. 120-121).

In order to increase the customer awareness of CSR attributes, company must "educate" its customer about the efforts that the company has done for the environment. Most efficient way to "educate" the customer was through Sustainability Disclosure, by correctly describe and publish their sustainable action, company rise the attention of the community.

III. Increase in Employees Benefits

a. Employees benefits

Employee is one of the most important resources in hospitality industry. As a service oriented business, employees in hospitality industry act as the face of the company, the more well-behave its employee the better the image of the company will be. Employees act exactly like customers, they are eager to learn about new technology and current thinking in society.

Apparently a company is considered as a forwards looking company when the company can announce and prove its CSR activity towards the society. When company is considered as a forward looking company it will increase the employees' commitment towards the company. In other words, effectively communicating CSR efforts can lower staff turnover, empowering employee engagement, increase staff morale and recruit better candidates, (e.g. Bader, 2005; Bohdanowicz & Zientara, 2008; Huimin & Ryan, 2011; Shaw & Thomas, 2006).

Kasim, (2004), has conducted a study for domestic and foreign hotel's guests in Pinang, Malaysia. In his study, Kasim found out that the important hotel aspect for guest was

the guest's experience – related aspects. For example: the kindness of the hotel staff member and the advertisement about local's culture and cuisine. These aspects are considered as a CSR attributes that can affect the employee's working performance.

b. Considerations

The major challenge for hospitality industry to contribute towards CSR were because of the great compliance with core labor standards, attention to worker welfare and human resource development and more corporate social initiatives, (The United Nations Economic and Social Council Report, 1999).

The high education and training cost were another consideration that should be taken by hospitality industry. In order to create high quality employee, company must sacrifices their money for other form of investment like education and training cost. Soloman and Hansen, (1985), stated that, the benefits in employee morale and productivity are able to compensate the cost of CSR.

IV. Customer Retention

a. Customer Retention

Nowadays, hotel guests are more sophisticated and have a various level of concern about the environmental issues like; bottle, cans and paper recycling, in order to create a "greener" lifestyle. They also tend to consume organic product such as pesticide free vegetable and fruit and/or use fuel-efficient cars. This new lifestyle may affect the customer's hotel preference. For the first time customer their consideration might base their decision on location, services, facility and price, but for the returning customer, their decision to choose a hotel might base on the hotel's level of environmental commitment, (Graci, 2002).

. Customer awareness is very important for service industry like Hospitality Industry, because customer's environmental awareness will affect their buying behavior and their participation in sustainable program like; donating money to charities involved in environmental issues, buying product that do not harm the environment, purchasing cleaner fuel, consuming organic foods and recycling, (Gunae Choi, H.G. Parsa, Marianna Sigala and Sanjay Putrevu, 2009, p. 99).

Some studies have found that in western countries, customer would prefer environmentally friendly hotels than hotels without CSR activity. For example a recent study in Canadian travelers found that one-third of customer in Canada would change their

holiday destination to another place that supported sustainable tourism more. Four men out of ten men said, they prefer to use travel agency that provided environmentally sensitive guidelines. 28% of Canadian's hotel consumers are willingly to pay a premium for an ethical and sustainable holiday, (TNS Canadian Facts, 2007).

b. Considerations

The first consideration is about the need to educate the customer. The term "educate" here means to build an environmental awareness within the customer regarding the company's efforts towards the sustainability of the environment, the goal is to make customer realized that there are sacrifices made by the company in order to become an environmental friendly company. If customer does not understand the environmental cost of the company, they are likely hesitant to pay extra cash for reproducing a responsibility product and it will affect the continuity of the Hospitality Industry's implementation in social responsibility.

V. Risk Management

a. Risk Management

Minimization of risk is one example of good corporate social responsibility. Minimizing risk means the ability to minimize the potential damage caused from company's activity (Sonya Graci and Rachel Doodds, 2008, p. 263). Applying CSR make a company cares more about the surrounding and pushed itself to strive for a better business performance that including the sustainability of the environment. Industries that critically depends on the sustainable of the surrounding like hospitality industry must be able to minimize the risk of business operation especially activities that have significant impact toward the environment, (Azilah Kasim, 2007).

Company that implement risk management can reduce the environmental risk and protect the company from potential liabilities, (WWF/IBLF 2002). An example of risk management in hospitality industry came from The Resort Municipality of Whistler, (2008). As a result of the wildfires in British Columbia in 2003, some resorts are developing a protection initiative to prevent the event of wildfire called "FireSmart" initiative. FireSmart initiative has developed a program such as selection of roofing materials and installations procedures on the new construction to prevent the wildfire event from reoccurring, (www.whistler.ca 2008).

## B. FINANCIAL BENEFITS

### I. Cost Savings

#### a. Efficient use of energy lead to cost savings

Cost saving in hotel industry usually spotted in form of reduced energy expenses, (e.g., Bader, 2005; Han et al., 2009; Mair & Jago, 2010). It is evidenced when a company decided to adopt and implement CSR activities it will affect company's performance through cost reduction and resource management, (Schendler, 2001). By utilizing the resources properly, hotels are likely to gain profit from cutting the unnecessary energy. Actions like conserving water and turn off the excessive use of lamp will bring effect towards the company's total cost of energy.

Energy conservation will bring huge different in the total cost consumption of a Hotel. EMTHIR, (1998) reported that cost of ventilation, heating and air conditioning, and the cost of electricity are the two energy sources that consume the most money. Where 25-50% of total energy is allocated for air conditioning and heating purposes, the amount of energy consumed depends on the size and the usage of air conditioning, and 15-25% of total energy is allocated in electricity and lightning purposes, such as the usage of garden and room lightning and for laundry purposes.

Brebbia and Pineda, (2004), claim that Hotel operators can safe up 20% - 40% of their energy consumption without negatively affects their daily operations, through investing in energy-efficient programs. Take an example from Forte Hotel Limited, this hotel has implemented many energy efficiency measures since 1983. In the beginning of 1996, around 70 of its hotel chain have completely installed a "combined heat and power systems" (CHP), this system generates 7.700kWh of electricity. With CHP company can reduce its electricity usage by more than USD 340.000 a year, and Forte Hotel has installed more CHP in more than 100 unit hotels with extra saving cost of USD850.000 in the period of 1996-2001, (Business Social Responsibility, 2001)

#### b. Considerations

The major consideration for becoming an environmental responsibility company is because of its high cost. There are three costs that needed to be put into consideration those are initial/installation cost and product requiring cost. The initial/installation cost is the cost in purchasing/installing sustainable machinery. For example, a manager hotel stated that once a hotel decided to engage with CSR commitment it has to paid \$5000 fee just to analyze the

condition of the company. Therefore equipment installation / replacement cost is an important consideration in applying sustainable business, (David Njite, Muray Hancer and Lisa Sletvich, 2011, p. 193).

Another cost is the cost of acquiring some of the material recommended for business. Many hotel managers are suggested to use the 'recommended material' in their business activity, but obtaining that kind of material is not that easy. Many managers expressed their complaint on how hard it is to search the recommended material because most of their products are obtained from local suppliers who cannot provide the requested produces.

### II. Reduce waste

#### a. Reduce waste

A large portion of waste materials is proved to be recyclable, Bohdanowicz, (2005), stated that approximately 50% of the hotel waste can be recycled or reused. EMTHIR, (1998), has conducted a research on the type of common hotel wastage, this research showed; 46 % part of total wastage in common hotel industry consisted of food and non-recyclables waste, but the other half of the total waste includes; 7% plastics, paper, 12% cardboard, 5% glass and 5% metals. All of these wastes (exclude food and plastic) are recyclable, so actually hotel managers can reduce nearly 47% of in annual waste.

NH Hotel is one example of hotel that successfully applied waste management policy. NH hotel can save up money for irrigation purposes by applying 'Grey-water' policy, this policy teach hotel managers to maximizing the use of water and minimizing water spoilage. Grey water policy in NH hotel was operated by re-using water from the sinks for watering the plants. . Other than grey policy, NH Hotel is capable to maximizing the use of organic waste like as fruit peels and vegetables.

#### b. Considerations

The consideration for reducing waste is basically similar with the consideration in efficient use of energy. The main consideration comes from the high initial cost, take a look at NH Hotel, in order to save water usage NH need to change all of the WC in their hotel chain and it will cost a lot of money

### III. Premium Price

#### a. Premium Price

Hospitality industry can view CSR as a form of investment, because by applying CSR a company can symbolizing their products with CSR attributes or using sustainable resources in

its production process. The idea for launching a CSR 'branded' product is to create market awareness on the company's contribution towards the society, rising in customers' awareness may impact their perspective towards the company.

Recent studies have discovered a relationship between customer awareness and their buying behavior, customer nowadays are concern about the environment, therefore by proving that your company contribute toward the sustainable environment will attract more customer to use and /or consume your products, this idea come from the belief that by consuming or using products from sustainable company customers are indirectly contributed towards the well-being of the society, (Abigail McWilliams and Donald Siegel, 2001, p. 119).

In conclusion implementation of CSR may provide company with premium yielded price. Selling "green labeled' product proved to be beneficial for company, beside increase their business image, implementing CSR also affect the revenue of the company in from of premium product price.

b. Considerations

The consideration aspect of premium price is basically the same with consideration of customer retention, which is the need to build the customer awareness. Company cannot charge their product at the premium price if customer does not understand the effort that company has made in order to create sustainable product, (David Njite, Murat Hancer and Lisa Slevitch, 2011, p. 194).

### **CONCLUSION, POLICY AND RECOMMENDATION**

After summarizing and synthesizing several journals of hospitality industry the result is that there is a positive relationship between applying CSR and company benefits. Implementing CSR means a company can get two types of benefit, which are Financial and Non-financial benefits. However, in order to get these benefits managers need to consider some other factors that might bring changes towards the overall company's business performance.

This report relied on the theory of supply and demand. In order to create better business performance hospitality managers need to consider the request from their stakeholders; one major demand from the stakeholders is for company to become more environmentally responsible and disclosing their environmentally sustainable performance. If a company can provide itself with a clear disclosure on their sustainability action, not only respond the

demand of information from stakeholder, company will also boost their business value by attesting their contribution towards sustainable environment.

However some of the benefits might require some sacrifices from the company. For instance, in order to gain the premium price first managers needs to make sure their guests and shareholders are well educated about the company's sustainable efforts, or in order to operate efficiently, company must set up or change their old equipment with a new one so that it can operates more efficiently. Those sacrifices might be costly at the beginning but several respondents are expressing the long-term benefits for the continuity of the company.

From the beginning the purpose of this report is to describe the relationship between applying CSR and getting the benefit from sustainable activity in Hospitality Industries. The categorization of the benefits into financial and non-financial addressed to the managers of hospitality industry for a better realization that implementing CSR does not always mean in term of money but increase in employees' working performance and customer retention can also acknowledged as company's benefit. Through this report, writer wants to encourage all managers to adopt CSR in to their system and daily business. By showing different kinds of benefits writer hopes hospitality managers start to realize that implementing CSR is a good management decision for the company.

As previously mentioned, all of the benefit that will be generated from CSR activities requires some additional efforts from the company, because each benefit depends on the external factors other than company itself. As a result, below are some recommendations for hospitality managers to ensure that they will get benefits from CSR activities:

**1. CSR disclosure**

In order to prove itself as a sustainable company, managers needs to know how to disclose their sustainable activities. Correctly report their CSR activities may enhance the value of the company.

**2. Taste and preference, and availability of substitution product**

In terms of product differentiation purposes, managers need to be aware of its customer's preference and also the availability of the substitution product. A study in customer's buying behavior and preferences in crucial for manager in order

to produce the product that is well-matched with the taste of its customer.

**3. Customer awareness, customer education**

Increase in customer awareness might bring benefits towards the company, because when a customer knows what the company has done or contributed towards the well-being of the society they are more likely to help by purchasing the green-labeled product with a premium price, which that can generate a higher profit for the company.

**4. Attention toward the welfare of the employees**

Employee is the main assets in the Hospitality Industries. In order to increase the workers' performance managers need to create a supporting working environment within the company. Praising on every effort the workers have made is a good way to motivate the employees. Another way is to give the employees a proper training so they can perform at their best for the company.

**5. High Replacement and Equipment Installation Cost**

Hospitality managers might want to save up the company's money in order to fully implement the CSR activities. In order to operate effectively and efficiently some company might be required to replace their old equipment into the new one that can consume less energy and produce better product.

**6. Usage in recommended materials**

Other than the cost of equipment, company may be asked to change their raw materials for production into other kind of materials that yield less waste, in hope that in the future company will generate less waste and produce a better or healthier product toward the society

The writer realizes that this report is not perfect and might need some adjustments, due to the limited amount of source and time. As a result, it is possible to be further explored in the future. Focusing only the financial and non-financial benefits of the hospitality industry without considering the opinion of the hospitality managers make it difficult to judge the actuality of this research to occur in a real business environment.

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