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## **CORPORATE SOCIAL RESPONSIBILITY Worth-Creating Activities**

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Running head: Social responsibility and event study

**Abstract:** Making the world a better place to live is an idea that is spreading over the four quarters of the globe; and the business realm is not an exception. Firms are expected to have ethical responsibilities and go beyond their profit-oriented commercial activities and increase the well being of the community. This situation becomes more evident when an industry has a very close relationship with environments and societies which, in turn, are facets of its own products. This study shows that socially oriented activities carried out by tourism firms bring about benefits for society both, directly (inherently to the purpose of such activities) and indirectly (via their commercial performance). The fact that getting actively involved in duties outside of the business arena has a positive influence on a firm outcome implies that these initiatives help increase the social force of tourism through non-economic as well as economic mechanisms. **Keywords:** social responsibility, market value, performance.

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## INTRODUCTION

A recent business trend emphasizes that firms are expected to go beyond their profit-oriented commercial activities and increase the well being of the community, making the world a better place (Robins, 2005). It means that the business sector should develop a marked non-economic function in society than only producing goods and making profits, by developing society driven actions. In actual fact, Falck and Hebich (2007) suggest that if it is a company's aim to survive and prosper, the best way to do it is to take a long-term view and understand that if it treats society well, society will return the favor. Post, Preston and Sachs (2002) go even further and assert that the corporation "cannot and should not survive if it does not take responsibility of the welfare of all its constituents, and for the well being of the larger society within which it operates". Therefore, firms have ethical responsibilities that include a range of societal norms or standards (Carroll 2000), and this seems particularly true for businesses in a consumer-oriented industry such as tourism. This industry has particular and identifiable duties outside of the business realm on account of its close relationship with destination environments and societies which are components of its products (Henderson 2007).

According to the World Bank, "corporate social responsibility (CSR) is a term describing a company's obligations to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders which their need to make a profit". In fact, evolution of the notions "sustainable development" and "sustainable tourism" made the World Bank consider a wider range of tourism dimensions to be included in new projects to justify the sustainability of investments for environmental and cultural preservation (Hawkins and Mann, 2007). In this regard, Henderson (2007) suggests that the characteristics of tourism add an extra dimension to CSR: society is part of the product and companies have distinct and serious obligations concerning sundry aspects of conditions at the places they are selling. This trait is likely to predispose them to the adoption of CSR, even more considering that such a tendency has been supported by evolving consumer tastes, the environmental movement and official demands for better tourism management.

At this point, a critical issue arises: although the positive effect of CSR actions on society is unquestioned, the relationship between CSR and firm performance is debatable, a conspicuous result being that a positive relationship between CSR and firm performance would imply a twofold effect on society: one, social initiatives are inherently designed to enhance the well being of society and therefore, their implementation should obviously have benefits for it; and two, benefits for society would also derive from the increase in the firm's profits obtained by carrying out CSR activities, or as usually stated, by developing and carrying out "best practices" (Cone, 2002; Dodds and Joppe, 2005; Bansa, 2006; Gond, Palazzo and Basu, 2007). In this regard, as tourism contributes to the well being of society, if the companies within this industry augment their performance, their positive effect on society will also increase. This study attempts to see whether social initiatives proposed by companies bring about social benefits for society via commercial mechanisms. According to Tilt (1997), the CSR-performance relationship is likely to be deeper in firms oriented towards the consumer, since their social reputation potentially affects their sales to a greater extent. Clearly, these issues of social reputation and image are long-term-related, and Falck and Hebich (2007) state that strategic practice of CSR involves a long-term shareholder value approach, which implies a long-term view of profit maximization as well. However, to date no empirical application in tourism research has related CSR to any forward-looking performance. In actual fact, Berens, Van Riel and Van Bruggen (2005) energetically call for research efforts that directly link CSR to stock market performance, as it has the advantage over any other measure that it hinges on growth prospects and sustainability of profits (Rust, Lemon and Zeithaml 2004). Given that this measure shows the expected performance in the future, it appropriately reflects the long-term outcome of CSR strategies. Consequently, this article examines the relationship between CSR actions carried out by tourism firms and their market value.

The rest of the article is organized as follows: The second section presents and justifies the effect of CSR activities on performance. The third section describes the research design, where the event-study technique is presented, the collection of data is described, and the tests used are justified. The results obtained are described in the fourth section, and finally, in Section 5, the main conclusions are explained, highlighting the implications that these results have for company management.

## THE VALUE OF CORPORATE SOCIAL RESPONSIBILITY

Businesses have non-commercial responsibilities and must give serious consideration to the well being of society (Hopkins 1999). It implies that besides owners, investors and any shareholders the concepts of business ethics and the importance of stakeholders should be considered by management (Schmidheiny, Chase and DeSimone 1997). This approach is inextricably linked to the “Triple Bottom Line” (Elkington, 2008), through which the standard line of prosperity (or profit) now should be considered along with the bottom lines of planet (or environment) and people (or society). In this regard, given that CSR is becoming increasingly important to justify business practices to society in general and to stakeholders specifically (Ingenbleek, Binnekamp and Goddijn 2007), corporations are becoming more and more disposed to engage in the social sector, by stating that they fulfill their social responsibility, promoting philanthropy, or acting as a responsible “citizen” (Sasse and Trahan 2007): 90% of the Fortune 500 companies have explicit CSR actions (Kotler and Lee 2004). According to Smith (2003), by dedicating ever-increasing budgets to these activities, “companies are acting on the idea that CSR is not merely the right thing to do but also the smart thing to do”.

In this context, CSR represents a highly publicized notion with important strategic implication for tourism companies. According to the stakeholder theory approach (Falck and Hebich 2007), careful attention to externalities and their impact on stakeholders is crucial to the company’s future success. Taking into account the relevance of potential, negative externalities of tourism (e.g. the uncontrolled proliferation of construction and traffic), organizations should configure principles and processes of social responsiveness, and implement policies and programs to enhance the firm’s societal relationships. In actual fact, more and more companies have been proclaiming themselves socially responsible, qualifying themselves with the term CSR and publishing CSR reports together with their annual reports (Martin and Moran 2007): the executive vice-chairman of Sol Meliá Hotels says that “tourism is a direct witness of World’s inequalities, and firms in this industry are forced to have a central role to reduce them (...) CSR should not be seen as spending but as a long-term investment” (Expansión 2004). In the same vein, the CEO of NH Hotels considers that “CSR is more profitable than advertising” (Gaceta de los Negocios 1999).

Therefore, as CSR can strategically be used to deal with the identified stakeholders' demands, management employs CSR as a prescriptive instrument in making plans that will satisfy both the stakeholder and shareholder approaches (Falck and Hebich, 2007). In this regard, according to Brammer and Pavelin (2004), if companies want to obtain their stakeholders' trust and build a good reputation in the market, they must give evidence that they are committed to continual, long-term improvement, informing about all social effect of its operation on society in general.

The analysis of CSR initiatives in tourism is particularly interesting because they might contribute to its social force by means of both, non-economic and economic mechanisms (Figure 1). Regarding the non-economic view (arrow 1), it is quite apparent that CSR initiatives are created to positively contribute to society in some specific aspects (e.g. restoration of historic buildings or fund-raising for NGO's). Hence, firms are favoring society by carrying out philanthropic, non-commercial activities. Concerning the economic view, the benefits for society stem from the following two sequential effects: the effect of CSR activities on firm performance (arrow 2), and the effect of firm performance on society (arrow 3). The latter is widely recognized since tourism offers -besides economic value- social, cultural and environmental benefits by improving individual well being, supplementing development and contributing to cultural protection (Higgins-Desbiolles, 2006). This author indicates that these perspectives coming from sociological, psychological and anthropological approaches imply seeing tourism as a social force. In fact, she insists on qualifying the emphasis on tourism's economic contribution by highlighting its other positive impacts, because tourism is a social/economic phenomenon that acts both as an engine of economic progress and a social force.

The former, however, has led to an intense debate among researchers because it is not as evident as the latter. According to Siegel (2005), the analysis of the effect of CSR on firm performance is still in a somewhat embryonic stage. In fact, Brown and Dacin (1997) urgently call for research on "how socially oriented activities might bring about positive outcomes for the firm". While there is an assumption that CSR will bring about economic and non-monetary rewards, its direct effect on financial and other results is debatable (Knox and Maklan 2004). There might be important conflicts between commercial priorities and a social orientation. On the one hand, CSR may result in negative financial returns because of the extra costs of making loads of

charitable contributions and the deflected attention from improving product attributes that would have allowed them to better satisfy customer needs and wants (Sen and Bhattacharya 2001). However, on the other hand, consumer attitudes to CSR initiatives are generally positive. Transfair USA indicates that 78% of US consumers would buy products associated with a cause and many of these consumers would be prepared to pay extra for such a product (Raynolds 2002). In this regard, Godfrey (2005) suggests that doing good works earns rewards for the firm that eventually benefit its shareholders, as CSR is believed to have useful commercial and cost saving functions in areas of staff recruitment and retention, image and brand building, advertising, differentiation and competition (Pearce and Doh 2005).

There are empirical studies in strategy and finance that have explored the relationship between CSR actions and firm performance, but empirical evidence has so far been rather conflicting: returns have been found positive in some studies (e.g. Fombrun and Shanley 1990; García and Armas, 2007) but negative in others (e.g. McGuire, Sundgren and Schneeweis 1988). Following Luo and Bhattacharya (2006), one possible explanation is that existing studies have largely related CSR to backward-looking firm profitability (e.g. accounting-based returns on investment) but not to forward-looking firm market value (e.g. stock-based firm performance). Accounting measures provide a historical record on the past and present situation of the firm, i.e., they show the returns from resources employed by the firm when carrying out its activity (Ramírez and Espitia 2001). However, Myers (1972) indicates that they can be insufficient because: one, they do not incorporate investor expectations of future profits; two, they could lead to confusion due to the deficiencies inherent in their dependence on different conventions (e.g., rate of depreciation), which make comparisons difficult; three, they do not reflect all the opportunity costs supported by the firm; and four, they do not allow the adjustment of differences in performance for differences in the risk supported by the firms.

The market value has the advantage that it is based on growth prospects: assuming that shareholders behave rationally, the share prices should reflect the present value of future cash flows, and therefore, it constitutes a good indicator to measure the impact of CSR activities on the firm performance. In this respect, Bhattacharya and Sen (2004) indicate that there is still a limited understanding of whether and how CSR affects financial outcomes of the firms, such as its market value. Yet it is important to

assess CSR's impact on market value because a firm's financial health is the ultimate test for the success or failure of any strategic initiative (Luo and Bhattacharya, 2006). In this regard, Berens et al. (2005) claim that more research is needed to evaluate the effect of CSR on share performance.

At this point, in order to fulfill the objective to see whether social initiatives proposed by companies bring about social benefits for society via commercial mechanisms, justification of the relation CSR-market value is a central point (arrow 4). Apart from the useful commercial and cost saving functions suggested above, it is important to remind that customer satisfaction has been widely recognized as a key driver of firm market value (Gruca and Rego, 2005). Therefore, the key question to answer is whether CSR can lead to customer satisfaction. If so, the following relation would be apparent: CSR activities lead to customer satisfaction and customer satisfaction increases market value.

Luo and Bhattacharya (2006) state three reasons for the "CSR activities-customer satisfaction" effect: one, Maignan, Ferrell and Ferrell (2005) suggest that a company's actions consider the multidimensionality of the consumer, in such a way that a "generalized customer" exists, i.e. customers who care about the consumption experience and at the same time are members of various stakeholder groups. Generalized customers are more likely to be more satisfied by products and services that socially responsible firms offer (Luo and Bhattacharya, 2006). Two, a strong record of CSR creates a favorable image that positively enhances consumers' evaluations of and attitude toward the firm (Sen and Bhattacharya, 2001). Moreover, CSR initiatives are a key element of corporate identity that can lead customers to identify with the company; and, identified customers are more likely to be satisfied with a firm's offerings (Bhattacharya and Sen, 2003). Three, Mithas et al (2005) empirically show that perceived value is a key antecedent to promote customer satisfaction. Customers are more likely to derive better perceived value and, consequently, higher satisfaction from a product that is made by a socially responsible company (Luo and Bhattacharya, 2006)

Finally, this study also proposes the notion of information asymmetries to explain the relation "CSR-market value" via consumer behavior. Asymmetry in information is the contrast among the different bits of knowledge that consumers and companies have about the products that are offered on the market. It is important to note that information asymmetries are particularly important for service companies because

the attributes of services are difficult to grasp in advance, as they are not observed prior to consumption. Bharadwaj and Menon (1994) point out that the image that the market has of a service company and its perception of the service it offers affect the company's performance even more than the very service it offers. Outstanding among service industries is tourism, where information asymmetries play a crucial role for the individual to make his/her tourist decisions. Prior to the service encounter, the tourist forms expectations about the forthcoming experience using a number of intrinsic and extrinsic cues that give indication about the likely performance standards (Gould-Williams 1999). Information obtained in this pre-purchase stage is especially relevant in tourism due to some of its inherent characteristics. One, inseparability implies that production and consumption take place at the same time. It means that tourists have to go to the place where the product is located, not the reverse as in other type of products that people buy in a store near home and use at their own home. As a consequence, it is the individual -his/her own person- who has to move to reach the product, hence increasing his/her involvement in the consumption. That is why in the context of tourism consumption people tend to reduce the uncertainty associated with both the displacement and the stay far away from home. And two, intangibility means that tourist cannot see or try what they are really purchasing, having important implications for the ease with which they can evaluate tourism services. Actually, they base their assessment in terms of expected results and experiences. However, not knowing what they will eventually obtain when getting to the destination is risky.

Two conclusions derived from this: one, for tourists it would be extremely decisive if they could be guaranteed a priori that everything will go according to planned, and two, the uncertainty inherent in the purchase and consumption of tourism services makes the strategies developed to reduce information asymmetries critical. In this regard, considering that tourist behavior depends, to a great extent, on the information that is made available before his/her purchase -becoming more significant if risk has to be lessened-, an individual may rely on the existence of CSR actions in order to reduce the uncertainty, as s/he might reasonably think that taking care of society implicitly means taking care of clients. Consequently, from this whole discussion, it is expected that CSR activities undertaken by tourism firms have a positive influence on their market value. This result would imply that social initiatives proposed by tourism companies not only bring about social benefits for society in a direct way (making a

donation, for example) but also via commercial mechanisms through the increase in profits that benefits the community, which is derived from that social action.

## STUDY METHOD

### *The event-study technique*

The event-study technique is founded, in the portfolio theory of financial economics, on the premises that stock markets are efficient and that a company's share price reflects its CSR strategy. In an efficient stock market, share prices reflect all the available information on a company. In fact any information received by the market (e.g. on CSR activities) will be instantly incorporated into the share price. Likewise, any change to a company's share price will reflect, without bias, alterations to its future cash flows. Therefore, the introduction of new information on CSR activities allows an examination of share price behavior to explicitly analyze the underlying change to unbiased market predictions on future returns on the said social activity.

The purpose of an event-study method is to estimate excess returns generated by a sample of unanticipated events -the basic hypothesis is that abnormal returns reflect stock market reaction to the arrival of new information-; defining each event as an announcement of CSR activities. The event study measures the impact of unanticipated events on share prices, being based on the estimation of a market model for each company event and on the posterior calculation of abnormal returns.

### *Data collection*

The study methods follow the "event study" technique, which is based on the following data collection process developed by McWilliams and Siegel (1997): In the first stage, starting with the tourism companies (two hotel chains, one Global Distribution System and one airline) that were trading on the Spanish Stock Market between 1996 and 2006, we chose those companies that carried out CSR activities, using the *Factiva* database (this provides information on headlines and news items published in different newspapers of international and national coverage, as well as those of general and/or specialized content). Only the two hotel companies fulfilled these requirements: Sol Meliá and NH Hotels. In the second stage, their CSR activity announcements between 1996 and 2006 are identified. To this end, we carried out a search of the *Factiva* database using a combination of key words such as the "company name", "CSR", "social action", "philanthropy", and, in unclear cases, we looked at the

full news item in the corresponding newspaper. The event day was defined as the first day in which the news was divulged in any of the publications used for the database. The search detected a sample of 28 CSR activities. In the third stage, we select the length  $k$  of the event window to test for any abnormal behavior in company share returns. To be precise, we consider the three days before and after  $(-3;+3)$  the announcement date. Although it is expected that the majority of CSR activities information is quickly incorporated into share prices, it occasionally either leaks out before formal publication or is held back. In the fourth stage, we eliminate announcements in whose event windows are published announcements such as government contracts, court cases, introduction of new products, organizational changes, labor disputes and unexpected profit or dividend declarations. This facilitates the exclusive measurement of the effect of the CSR action, and eliminates the possibility of including other effects. All of this reduces the sample thus, from 28 to 26 announcements (eighteen Sol Melia's announcements and eight NH's releases). Although this sample size could a priori seem somewhat small, the usual empirical applications of the event study technique show that it can be large enough to detect reactions in share prices (see for example, Gómez Sala (2001)). Also, it is important to stress the fact that the process to collect the data guarantees that these are all the news items being released during the study period. In the fifth stage, we collect data on market measures of performance. Market measures provide information on the value of the firm as a going concern. Such data are not themselves free of problems, given that some markets may present inefficiencies or volatility on specific occasions (Ramírez and Espitia, 2001). But, they allow us to consider the opportunity costs, the risk supported by the firm, and the capitalized value (expectations) of the benefits of CSR activities, as well as to minimize the distortions resulting from tax laws and accounting standards.

The raw data are the daily returns on the shares of the two firms which made the 26 expansion announcements during the period 2 July 1996 to 31 December 2006, temporal period defined by the availability of daily stock market information. These daily returns are adjusted with dividends, subscription rights and splits. The returns on the share price of a company  $i$  on day  $t$  ( $R_{it}$ ) is expressed as:  $R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$  (1), where  $R_{mt}$  = returns on the market portfolio on day  $t$  (this study uses the IBEX-35, a representative index of the Spanish Stock Market, as a substitute variable of the true

returns on the market; the information was obtained from the Stock Exchange Society);  $\alpha_i$ =returns on the shares of company  $i$  independent of those of the market;  $\beta_i$ = sensitivity of returns on the share  $i$  to variations in market returns; and  $\varepsilon_{it}$ = error term. The estimation of equation (1) allows us to calculate daily abnormal returns (AR) for a company  $i$  announcement (2):  $AR_{it}=R_{it}-(a_i+b_iR_{mt})$ , where  $a_i$  and  $b_i$  are the OLS estimations of the regressions (1) for a period  $T$  before the event. Abnormal returns represent those obtained by a company once investors have adjusted for normal returns; the return on shares is adjusted by subtracting expected returns from actual returns, so that any significant difference is considered abnormal.

### *Testing abnormal returns*

To analyze the effect of a company's CSR activities announcements on its share price, this article tests the significance of the average abnormal returns for  $N$  companies announcements on the event day ( $t=0$ ) using Brown and Warner's (1980) parametric test (which is the traditional test) and Jaffe's (1974) parametric test (which is chosen for this study because it corrects sample contemporary correlation problems, which might come from the existence of overlapping periods in some announcements, as well as from the presence of different companies in the same industry).

It is important to note that the existence of kurtosis and heteroskedasticity in the error term of equation (1), which have been detected in various empirical applications, would lead to defective estimates (Morgan and Morgan 1987; Connolly and McMillan 1989; Gómez Sala, 2001; Abad and Rubia, 2003). For this reason, alternatively this study also estimate an autoregressive conditional heteroskedasticity model, GARCH(1,1), whose main purpose is to be able to model the conditional variance of the returns. Such models distinguish between unconditional variance, which is constant and stationary, and conditional variance, which is modified by the available information. Thus, the returns defined by means of this specification are obtained by assuming that  $\varepsilon_{it}=h_{it}^{1/2}\eta_{it}$  and  $\varepsilon_{it}|\varepsilon_{it-1},\varepsilon_{it-2},\dots\sim N(0,h_{it})$  where  $\eta_{it}$  i.i.d. with  $E(\eta_{it})=0$  and  $E(\eta_{it}^2)=1$ . In this context,  $h_{it}$  is the conditional variance and is represented as  $h_{it}=c_i+\lambda_i\varepsilon_{it-1}^2+\gamma_i h_{it-1}$ , where  $c_i$ ,  $\lambda_i$  and  $\gamma_i$  are parameters to be estimated.

Finally, following McWilliams and Siegel's (1997) indications, in order to avoid possible estimation problems that arise when normality hypothesis is no fulfilled, a *complete non-parametric event study approach* suggested by Dombrow, Rodríguez and

Sirmans (2000) is employed. It implies using a distribution-free in both the estimation of equation (1) and the test of abnormal returns (equation (2)). For the estimation of equation (1), the Theil nonparametric regression technique is used. The use of this robust estimation has been supported by several authors: Hussian and Sprent (1983) arrive at the conclusion that Theil's estimate is outstandingly superior to OLS under non-normal distributions and slightly inefficient with respect to it under normality; and Talwar (1993) finds Theil's estimators to perform better than autoregressive conditional heteroskedasticity models.

To carry out Theil's estimation, a process in several stages must be followed (Dombrow et al 2000): one, sort the  $T$  pairs of  $(R_t, R_{mt})$  in the estimation period in ascending order of the  $R_{mt}$ ; two, separate the data pairs into two groups based on the median, excluding the median pair if  $T$  is odd; three, calculate a slope parameter  $\beta$  for each of the  $T/2$  data pairs in each group by computing the expression:  $\beta_{i,t,t+T/2} = (R_{i,t+T/2} - R_{i,t}) / (R_{m,t+T/2} - R_{m,t})$ ; four, Sort the calculated slope parameters in ascending order; five, estimate  $\beta$  with the median slope and compute the values of  $\hat{\alpha}_i$  for all data pairs; and six, estimate  $\alpha$  with the median value of the  $\hat{\alpha}_i$ . Given that this procedure is median-based, it is easy to see that it will remove the undue influence of outliers, since these will fall at the beginning or at the end of the ranking process. For the test of abnormal returns (equation (2)), the well-known non-parametric test of Corrado (1989) is employed.

The joint use of these three approaches -OLS estimation with two parametric tests, GARCH estimation with two parametric tests, and the complete non parametric approach with Theil estimation with a non parametric test- will help corroborate the results as they are based on different assumptions.

## RESULTS

Table 1 shows the estimation of the average abnormal returns (average AR) on each day of the event window of the 26 announcements. The results obtained demonstrate that, on average, CSR announcements are associated with positive excess returns. Average abnormal returns on the day after publication is greater than 0.50% in all three cases (0.58%, 0.56% and 0.69%, respectively), being significant with the parametric Brown and Warner (1980) and Jaffe (1974) tests in both the OLS and GARCH estimations, and the non-parametric Corrado test in the Theil estimation. This

indicates that, on average, hotel companies which announce CSR activities experience a gain of 0.50% plus in excess returns for day  $t=1$ . This percentage represents the greatest gain in excess returns for the period of  $\pm 3$  days around the event. Also, the last columns after each group of tests (columns 5, 9 and 12) show the percentage of strictly positive abnormal returns from a total of 26 for each day, showing that 69.2% -in both the OLS and GARCH approaches- and 72.3% -in the complete non parametric approach- have positive abnormal returns on the day after the event ( $t=1$ ). This proportion is significantly greater, using a Binomial test with a level of significance below 10%, 5% and 5% respectively than the average percentage of positive returns observed in the estimation period (45.89%, 49.10% and 50.45% respectively).

Apart from the statistical significance of the results, their economic importance is illustrated as follows: for an average sample market value of \$US 1603,934,383.74 (the result of multiplying the number of shares by their share price), abnormal returns of 0.50% suppose an increase in market value of \$8,019,671.91 in one single day. What is more, 0.50% in one day is equivalent to annual returns of 517.46%.

Consequently, it is evidenced that CSR actions undertaken by tourism firms have a positive influence on their market value. Considering that this result derives from the fact that generalized customers are more likely to be more satisfied by services that socially responsible firms offer, that CSR creates a favorable context that positively enhance consumers' perceived value and evaluations of and attitude toward the firm, and that tourists rely on the existence of CSR actions in order to reduce the uncertainty and diminish information asymmetries, the use of CSR is thus supported for two reasons: it increases the well being of society and augments the firm's value as well. This result shows that socially oriented activities carried out by tourism firms bring about benefits for society both, directly (inherently to the purpose of such activities) and indirectly (via their commercial performance). The fact that getting actively involved in duties outside of the business realm has a positive influence on a firm outcome implies that these initiatives help increase the social force of tourism through non-economic as well as economic mechanisms.

## CONCLUSION

Environments and societies are facets of the tourism products. Therefore, firms and entities managing these products, are expected to act responsibly as externalities are specially manifest. A critical issue, however, arises: the effect of CSR on firm

performance. Do socially oriented activities bring about positive outcomes for the firm? If so, it would imply that implementing social initiatives benefits the society directly (as they are inherently designed to enhance the well being of society) and indirectly (given that tourism contributes to the well being of society, if the companies within this industry augment their performance, their positive effect on society will also increase).

Therefore, the analysis of CSR initiatives is particularly interesting because they might contribute to the social force of tourism by means of both, non-economic and economic mechanisms. With respect to the non-economic perspective, CSR initiatives contribute to society in some particular areas. With regard to the economic perspective, the benefits for society stem from the effect of CSR activities on firm performance, and subsequently, the effect of firm performance on society. The latter is widely recognized: sociological, psychological and anthropological approaches to tourism consider it a social force. The effect of CSR activities on firm performance, however, is disputed, as there might be fundamental tensions between commercial priorities and a social, non-commercial activities.

This study attempts to see whether social initiatives proposed by companies result in positive outcomes. Given that tourism is a social/economic phenomenon that acts both as an engine of economic progress and a social force, obtaining positive performance from CRS activities would imply that these initiatives benefit the society both directly (through the philanthropic investment made in society) and indirectly (through the increase in profits).

Social reputation, derived from applying CRS actions, is long-term-related, and therefore, a long-term shareholder value approach should be used. However, no empirical application in tourism research has so far related CSR to any forward-looking performance, such as market value. Hence, this article observes whether getting involved in responsibilities outside of the business arena has an influence on the market value of tourism firms. The empirical analysis through the application of “event-study” on a sample of 26 CSR activities announcements between 1996 and 2006 from two Spanish quoted hotel companies finds significant positive returns on the day after the event announcement, which suggests that, on average, stock market reacts positively to CSR activities announcements. Therefore, CSR activities enhance the social force of tourism by non-commercial mechanisms (e.g. making a donation for a philanthropic

activity) as well as commercial paths (society benefits from the increase in the firm's profits obtained by carrying out CSR activities).

The most important managerial implication of this study is that acting as a responsible "citizen" is not incompatible with obtaining economic profits. The key point is that people tend to put their trust in responsible firms. In tourism, trust is essential: it is widely established that this market is very information-sensitive and the degree of tourist uncertainty is notably high due to the inherent characteristics of its purchase and consumption (people cannot try services in advance, they have to move in person from their origin to the destination in order to consume the services and they do not know what they will eventually obtain when getting to the destination). These aspects increase their involvement in the consumption and consequently, they tend to reduce the uncertainty associated with both the displacement and the stay far away from home. In order for a tourism firm to make their clients aware that uncertainty does not exist in its service provision -or at least it has been diminished at a minimum-, it may seek for such CSR activities, as it makes them trust the firm in greater extent. An individual may rely on the existence of CSR actions as s/he might reasonably think that taking care of society implicitly means taking care of him/herself. Also, this finding suggests that companies should realize that CSR initiatives can represent a robust public relations strategy that allow tourism managers to obtain competitive advantages and reap more financial benefits, particularly in the current market environment in which stakeholders may have strong social concerns.

Also, this study has methodological implications, as the use of the market value facilitates the analysis of the effect of CSR on performance by estimating unbiased market predictions on future profits. This technique employs a forward-looking firm performance that overcomes all the difficulties of the traditionally used backward-looking firm profitability, i.e. accounting measures. This study has showed the usefulness of this methodology. A remarkable aspect of it being its versatility to be applied to several areas in the tourism industry, i.e. changing levels of service quality in travel agencies, or incorporating new technologies in transport companies.

For further research remains the analysis of the different effects of CSR initiatives on distinct industries to see whether there is a differentiated influence compared to the tourism industry, as well as on distinct sectors (hotels, travel agencies, airlines, etc.) within this industry. Along this line, other types of entities can be studied.

In a BLT model, tourism brokers, tourism locals and tourists interact with each other (Miller and Auyong, 1998). Focusing on the first group, three different subcategories are identified (Miller and Hadley, 2005): private sector brokers, public sector brokers and social movement brokers. For private sector broker (hote industry, in particular), this study could be an empirical application; however, future research could be devoted to the second and third kind of brokers. In the realm of public sector brokers, the degree to which a private company not only fulfills but surpasses the legal minimum established by the government could be analyzed by observing its effect on its returns. Regarding social movement brokers, it would be interesting to research how their claims and actions about a company in terms of its CSR activities have an influence on its share performance. Also, given that an ISO social responsibility standard has recently been proposed, which provides guiding principles on social responsibility, it would be interesting to research the effect of such certificate on performance.

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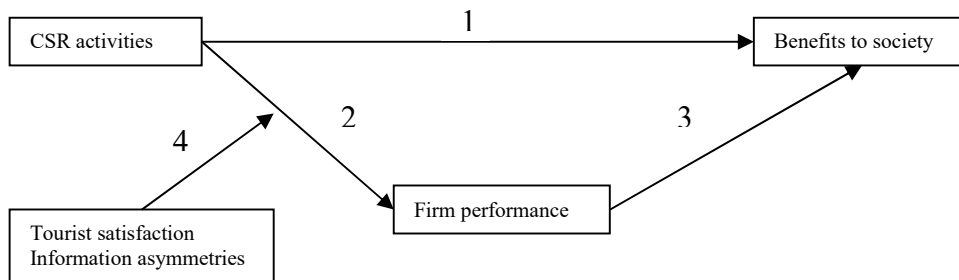
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**Figure 1. Relationship between CSR activities and society**



**Table 1 Abnormal Returns Derived from CSR announcements**

<b>Event day</b>	<b>Average Abnormal Returns (OLS)</b>	<b>Brown and Warner</b>	<b>Jaffe</b>	<b>% of Positive Abnormal Returns</b>	<b>Average Abnormal Returns (Garch)</b>	<b>Brown and Warner</b>	<b>Jaffe</b>	<b>% of Positive Abnormal Returns</b>	<b>Average Abnormal Returns (Theil)</b>	<b>Corrado's test</b>	<b>% of Positive Abnormal Returns</b>
-3	-0.114%	-0.344	-0.388	38.5%	-0.091%	-0.271	-0.310	42.3%	-0.077%	-0.739	42.3%
-2	-0.064%	-0.192	-0.218	42.3%	-0.014%	-0.040	-0.047	42.3%	-0.008%	-0.348	38.5%
-1	-0.451%	-1.367	-1.542	42.3%	-0.416%	-1.244	-1.419	42.3%	-0.375%	-1.571	38.5%
0	0.077%	0.233	0.264	46.2%	0.089%	0.265	0.303	53.8%	0.131%	0.159	53.8%
+1	0.588%	1.781 <sup>c</sup>	2.009 <sup>b</sup>	69.2% <sup>c</sup>	0.563%	1.681 <sup>c</sup>	1.917 <sup>c</sup>	69.2% <sup>b</sup>	0.696%	2.731 <sup>a</sup>	73.1% <sup>b</sup>
+2	-0.025%	-0.074	-0.084	42.3%	0.010%	0.028	0.033	46.2%	-0.031%	-0.416	42.3%
+3	-0.251%	-0.760	-0.858	34.6%	-0.206%	-0.615	-0.702	38.5%	-0.133%	-0.580	38.5%

a=prob<1%; b=prob<5%; c=prob<10%.