THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES ON THE FINANCIAL PERFORMANCE OF LEBANESE RESTAURANTS

Imad Wazni
Lebanese International University, Beirut, Lebanon

There is a growing need for restaurants to explain their decisions and methods. More and more people are learning about the negative consequences that corporations' selfish exploitation of natural resources and human capital may have on whole communities and societies. As a result, the purpose of this study is to investigate whether or not CSR activities have any impact on the success of Lebanese restaurants financially. This study's overarching objective is to assess the connection between restaurant CSR practices and financial outcomes in Lebanon, especially in the areas of human resources, community, environment, and goods and consumers.

The information was gathered from 27 different restaurants' CSR reports and yearly reports over a period of five years in Lebanon (2015 till 2020). The data acquired was analyzed using Statistical Package for Social Scientists (SPSS, version 20) by methods of correlation and multilinear regression analysis. The findings reveal a substantial association between the aforementioned independent variables (CSR practices in human resources and CSR practices in goods and customers) and the (financial performance of restaurants, and CSR practices in the environment and CSR practices in the community) (financial performance of restaurants, and CSR practices in the environment and CSR practices in the community).

This study offered a key addition to previous existing literature concerning CSR activities in Lebanese restaurants industry, while also establishing a platform for future studies. This study demonstrates the significance of CSR practices and how they may substantially affect the financial results of restaurants in Lebanon.

Keywords: Corporate Social Responsibility; restaurants; environment; financial performance

Introduction

Several financial crises have affected the hospitality industry worldwide over the past couple of decades, such as the 2008 economic and financial crisis. Due to the effects of the recent financial crisis, businesses have had to adapt to new rules and regulations.
According to Yoon & Chung (2018), the profile and influence of the hospitality industry in local communities has grown significantly in recent years. As people increasingly demand transparency about the commercial activities of organizations, people are asking for disclosure of every act and behavior in which they participate. Restaurants are no exception in this scenario. Hospitality industries involved in activities that are considered socially irresponsible according to Youn et al. (2015).

Restaurants that engage in such socially irresponsible behavior risk losing both staff and customers. Despite this, many businesses, including restaurants, have made CSR an integral element of their operations. That's so they can meet the needs and expectations of their stakeholders while also giving due regard to the company's bottom line, the law, its moral compass, and its social mission (Ye et al, 2015).

Research Problem

Corporate Social Responsibility (CSR) is defined by the World Business Council for Sustainable Development as “the ongoing commitment of a company to act ethically to drive economic development and improve the quality of life for its employees, their families and the communities in which they work”. Indeed, CSR has become an integral part of the day-to-day activities of corporations, as it improves the profits of enterprises in all sectors.

After the financial crisis of 2008, the requirements for CSR increased, as did the requirements for openness, responsibility, and trust. However, the vast majority of research on this topic has been conducted in an international environment with a focus on industrialized countries such as the international environment of the hospitality industry, US restaurants, Turkey and Korea.

Dimensions of Corporate Social Responsibility

The earlier literature includes three main dimensions relating to CSR: environmental, social, and economic dimensions. Other literature also highlights two more additional dimensions: voluntariness and stakeholders dimensions. The effect of CSR on the financial performance of firms may rely upon the CSR dimension considered.

The economic dimension

Companies around the world realize that they cannot afford to ignore CSR initiatives such as donating to charities and investing in their communities if they are to survive. The economic responsibilities for every business include making a profit, satisfying customer needs, and paying debts and repaying investors (Sakaguchi et al, 2018; Saeidi et al, 2015). Creating economic value is a company's commitment to long-term business sustainability, adequately responding to business risks and providing adequate and important security for its shareholders, investors, employees, and society (Ramesh et al, 2019).

Some economic indicators may be found in the economic dimension, such as the direct and indirect impacts on societies via purchasing power, locations, corporate practices, and taxes.

The social dimension

There is a strong correlation between the social component and the nature of the interaction between the company and the locals. If a company claims to be socially
responsible, it shows that it recognizes and accepts responsibility for the social impact it has on its community, no matter how small or indirect those impacts may be.

The main goal of CSR's social component is for companies to do their part to improve local communities, address social issues head-on in their operations, and recognize the impact they may have on people's lives (Perryman et al, 2016).

Since companies are a part of a larger human society, they have an obligation to allocate resources to improve both their internal and external communities. In fact, people can contribute to the improvement of their quality of life in society by demanding that the authorities solve their problems and acting on their behalf (Kim & Zapata Ramos, 2018).

Companies that care about their social impact do things like donate to charity, pay their employees a living wage, adhere to ethical business practices, and host charitable events.

**The stakeholder’s dimension**

Stakeholders are described by Jung et al (2018) as those who stand to be affected by or influenced by an organization's procedures and methods of decision-making. According to Guzzo et al (2020) it is possible to divide these individuals into two groups: internal and external stakeholders. Employees and management are examples of internal stakeholders, whereas the environment and society are examples of external stakeholders. Stakeholders, according to Gürlek & Tuna (2019) include all people who have a vested interest in the success of a company, whether as investors, customers, suppliers, or employees.

The stakeholder CSR factor helps reduce conflicts that arise from competing stakeholder interests and avoid unethical behavior at the same time. Companies that want to trade internationally and stay competitive need to include CSR practices into their overall business operations (Gupta et al, 2019).

**The environmental dimension**

Corporations are under growing pressure to evaluate how their operations affect society, the environment, and the economy. Further, the norms and regulations imposed by governments and municipal authorities determine the extent of dedication to using environmental CSR practices (Glaveli, 2020).

Environmental CSR comprises several activities, for example: energy saving, efficiency in manufacturing processes and raw material usage, waste reduction, applying green and innovative technology in production. A climate-resilient economy may be built via environmental CSR practices. There have also been several studies undertaken to learn how environmental CSR activities affect bottom lines and public perception (Franco et al, 2020).

Environmental CSR practices may also spur innovation, save costs, and safeguard resources, providing an edge for the business and ensuring its continued success (Farmaki, 2019).

**The voluntariness dimension**

Voluntariness is the freedom to act apart from any compulsion to meet predetermined goals; it is also linked to initiative that goes beyond the letter of the law. Companies are held to a higher standard than only making a profit, helping the community, and making their people happy.

CSR business ethics, which emphasizes moral and philanthropic obligations, is also important for understanding the voluntariness of CSR operations. In conclusion, CSR is a
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multifaceted term with many various facets, including economic, social, environmental, stakeholder, and voluntarism (Cannella et al. 2008).

The correct implementation of CSR in enterprises depends on all five dimensions, each of which emphasizes a distinct facet of CSR activities. The impact of CSR on a company's bottom line might vary greatly depending on the specific CSR component being considered.

Financial Performance

Financial performance is the state of one's finances through time, as described by the Cai et al (2012). The capital adequacy ratio, liquidity, leverage, solvency, and profits are all markers of proper capital structure. The efficiency with which a business manages and controls its own resources is reflected in its financial performance.

More than that, it may provide us a glimpse into the effectiveness of our use of resources to generate earnings. Earnings per share return on assets return on equity, net interest margin, net profit, Tobin's Q, price-earnings ratio, and returns on stock are all useful metrics that may be used to evaluate the restaurant's financial health (Bridges et al, 2019).

In actuality, analysts take all the data that exists and distill it down to one figure called the EPS (Brownell & Warner, 2009).

Positive relationship between corporate social responsibility and financial performance

According to this analysis, CSR is a crucial factor in improving a company's bottom line. All three of these theories—corporate social performance, stakeholder theory, and agency theory- agree that CSR improves an organization's bottom line. According to this view, companies have a duty to address social problems; particularly those that they helped create.

This illustrates that businesses are responsible for more than just generating wealth and increasing profits. In fact, it insists that organizations should help rather than hurt the communities in which they operate.

Arun & Joseph (2020) presented a concoction of ideas for social responsibility, worries about the need for social responsibility, and a philosophy for dealing with social difficulties. Ahmed et al (2020) proposed four categories to describe the range of obligations that corporations should fulfill in relation to their society: economic, legal, moral, and voluntariness.

According to stakeholder theory, a company's worth and overall success are directly tied to how well it meets the needs and wants of its many stakeholders. According to this view, companies' main goal is to balance the needs of many interested parties. These two moral standards, the "Principle of Corporate Rights" and the "Principle of Corporate Effects," form the basis of the philosophy. Managers and corporations are not allowed to interfere with employees' or customers' "Principle of Corporate Rights" to make decisions about their own lives. The "Principle of Corporate Effects" stresses the need of businesses taking responsibility for their activities and the harm they cause (Saeidi et al, 2015).

Agency conflict is minimized when an organization's interests, aims, and expectations align with those of its stakeholders (Guzzo et al, 2020). A company's financial performance may benefit greatly from changes made to the environment in which its internal stakeholders operate.
Furthermore, this plan would not have an obvious impact on the company's bottom line as far as its external stakeholders are concerned. However, it has the potential to improve both customer happiness and the company's public image. This has the potential to boost the firm's prospects and stock price via increases in the value of its intangible assets. According to this view, companies may greatly benefit from cultivating strong partnerships with their key constituents (Gürlek & Tuna, 2019).

Therefore, it is crucial for a firm to think about how its CSR strategy will affect its stakeholders. A criticism leveled against this idea is that it provides cover for opportunistic behavior on the part of managers. The idea suggests that managers have been able to get away with self-serving conduct by catering to the needs of the stakeholders who end up benefiting from it (Gupta et al, 2019).

**Negative relationship between corporate social responsibility and financial performance**

Several studies have shown that CSR has a deleterious effect on a company's bottom line. References include works by Bridges et al (2019). The Shareholder Value hypothesis is a neoclassical economic theory that was first articulated by Milton Friedman in 1970. Profit maximization and expanding shareholder and economic value are at the center of this ideology, which is also known as "Fiduciary Capitalism."

According to Bouslah et al (2013), corporate social responsibility drains the few resources of an organization and has nothing to show for it. According to this mindset, spending time with others costs money and it eats into your profits. The truth is that this can have a negative impact on the company's bottom line. It specifies that a company's participation in social activities is warranted only if mandated by law or if doing so increases the company's worth to shareholders. Any business's primary objective, therefore, should be to maximize profits within the bounds of the law and good ethics.

Bolton & Mattila (2015) provided support for this notion; they analyzed how withdrawal from CSR-related companies in South Africa might affect the country's stock market. Over a ten-year period, 116 companies from many sectors are surveyed. The data demonstrate a fall in share prices for these firms. These findings demonstrate that managerial-level tactics, rather than value-creation goals, may be affected by non-economic constraints.

**Neutral relationship between corporate social responsibility and financial performance**

According to this theory, corporate social responsibility (CSR) has no impact on a company's profits. Both bases are seen as incompatible, and any apparent connection between them is seen as accidental.

According to Gürlek & Tuna (2019), there are too many factors to isolate and analyze the precise nature of the connection between CSR and company financial success. In a study using a sample of 82 firms, they found that public works had no effect on profit targets, workflow consistency, or pricing.

In addition, according to Gupta et al (2019), the impact of social responsibility on companies’ profit is negligible. It is said that the ambiguity of CSR dimensions and the use of varying performance assessment in studies account for the conflicting findings on the impact of CSR on an organization's profit.
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Theoretical and methodological concerns have been cited as the cause of these contradictory findings by researchers. They emphasized on the limitations of CSR theories, including the lack of specific criteria for selecting and components to assess the social and financial performance of firms, and the lack of clear techniques for gauging social performance.

Data Collection

Primary data is collected firsthand from sources, whereas secondary data is gathered from other sources. Primarily, a study relies on primary data, which are the firsthand accounts the researcher has gathered via their own experiments, surveys, and questionnaires. On the other hand, secondary data draws from already existing sources. Content for secondary research may be culled from the results of earlier studies; these studies can draw on case studies, journals, newspapers, books, and other sources.

Since there is already so much written on CSR practices and financial success, secondary sources were used extensively in this investigation. The research used information gathered from five years' worth of annual reports, CSR reports, and sustainability reports from Lebanon's restaurants (2015–2020).

The selection of this time frame is based entirely on the disclosure of CSR practices and reports in the annual reports, CSR reports, and sustainability reports posted on the restaurants' respective websites. The proper reports were retrieved from each restaurant's website to compile the necessary data on CSR procedures. In addition, the restaurants' annual reports and financial statements were acquired from their official websites to collect data on the factors affecting the restaurants' financial success.

Research population and sample size

This study focused on the hospitality industry in Lebanon, including both halal and secular eateries. The study included 27 Lebanese eateries. These eateries have been selected solely based on information published on their websites, including corporate social responsibility, sustainability, and annual reports. This means that 27 eateries make up the final sample.

The 27 restaurants were chosen because they were among of the few that provide information about their corporate social responsibility (CSR) efforts in either their CSR report, sustainability report, or annual report.

From 2015 through 2020, 81 reports covering CSR, sustainability, and yearly reporting were collected from the websites of these 27 restaurants.

This study used a non-random sample strategy based on a non-probability sampling approach. The rationale for employing the non-probability sampling approach is because it is cost-effective and efficient overall. For this study, researchers used a technique known as "convenience sampling," in which a representative sample is drawn from the community based on how readily and quickly the participants could be accessed.

Non-probability sampling and the convenience technique were used to choose Lebanese restaurants that have submitted reports with CSR practices disclosure.
Reliability

Table 1 - Reliability analysis
(Source: author calculation)

<table>
<thead>
<tr>
<th></th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>.763</td>
</tr>
<tr>
<td>Human Resources</td>
<td>.748</td>
</tr>
<tr>
<td>Products</td>
<td>.751</td>
</tr>
<tr>
<td>Community</td>
<td>.714</td>
</tr>
</tbody>
</table>

In reference to the table that was just shown, the purpose of the validity and reliability study is to verify the accuracy of the data obtained by using an indicator known as Cronbach Alpha. If the Cronbach Alpha is less than 0.5, the data are not verified. If the Cronbach Alpha is between 0.5 and 0.7, the data are validated but include bias. If the Cronbach Alpha is more than 0.7, then the data are validated. “Environment” received a Cronbach Alpha score of 0.763, “Human Resources” received a score of Cronbach Alpha 0.748, “Products” received a score of Cronbach Alpha 0.751, and “Community” received a score of Cronbach Alpha 0.714. Given that each variable has a Cronbach Alpha higher than 0.7, this indicates that all of the variables have been statistically verified.

Regression Analysis

Table 2 - Regression Analysis
(Source: author calculation)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.844</td>
<td>.713</td>
<td>.708</td>
<td>.532</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Environment, Human Resources, Product and Community

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.112</td>
<td>.141</td>
<td>.794</td>
</tr>
<tr>
<td></td>
<td>Environment</td>
<td>.145</td>
<td>.043</td>
<td>.128</td>
</tr>
<tr>
<td></td>
<td>Human Resources</td>
<td>.300</td>
<td>.028</td>
<td>.237</td>
</tr>
<tr>
<td></td>
<td>Product</td>
<td>.169</td>
<td>.057</td>
<td>.153</td>
</tr>
<tr>
<td></td>
<td>Community</td>
<td>.532</td>
<td>.057</td>
<td>.516</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance

Referring to the above model, it can be noted that the addressed independent variables, which include environment, human resources, product, and community, scored R (0.844) which means that the association between these variables and Financial Performance of
Restaurants is 84.4%. In other words, these independent variables mentioned tend to impact the financial performance of restaurants by 84.4% and that 15.6% of the variables are not addressed in this model.

However, the R2 obtained in this model is 71.3%, which means that 71.3% of the variation in financial performance is due to variation in the mentioned explanatory variables.

The preceding regression investigates the relationship between the independent variables and the dependent variable. Because the significance level for each of the above independent factors displays a level that is less than 0.05, it can be deduced that there is a significant association between each of these independent variables and financial performance.

As a result of the fact that all the variables achieved a margin of error that was lower than 0.05, the null hypothesis, which states that there is no connection between the independent factors stated and financial performance of restaurants, had been rejected. The alternative hypothesis, which states that there is a relationship between the independent variables and the dependent variable, will be accepted.

It is possible to phrase the equation as follows:

\[ Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 \]

Financial Performance = 0.112 + 0.145 Environment + 0.300 Human Resources + 0.169 Product + 0.532 Community

This implies that:

For every 1% increase in CSR in environment, financial performance of restaurants will increase by 14.5%.

For every 1% increase in CSR in Human Resources, financial performance of restaurants will decrease by 3%.

For every 1% increase in CSR in products, financial performance will increase 16.9%.

For every 1% increase in CSR in communities, financial performance of restaurants will increase 53.2%.

Summary of Findings

The purpose of this study was to examine the relationship between restaurants' CSR policies and their bottom lines in the Lebanese market. Due to the availability of the necessary reports on the restaurants' websites, this study relied on data from CSR reports, sustainability reports, and annual reports provided by the restaurants online during a five-year period: 2015 to 2020.

The collected data was entered into SPSS (version 2020) for analysis, and the significance and type of relationship between the independent variables (CSR practices in the environment, CSR practices in human resources, CSR practices in products and consumers, and CSR practices in the community) and the dependent variable was tested (financial performance of restaurants).

This study's findings indicate that CSR practices in human resources and CSR practices in goods and customers have a very substantial, positive effect on the dependent variable (financial performance of restaurants). CSR efforts in the environment and CSR practices in
the community, on the other hand, did not affect restaurants' bottom lines, as previously established. Considering these results, it seems that eating establishments that focus on human resources procedures have better financial results. In other words, the restaurants may profit financially from this socially responsible action in proportion to the amount of effort put into providing training, development, perks, and incentives to all its workers and staff.

In addition, the restaurant's leadership and HR department play an important part in making sure that everyone who works there is invested in their job and has a positive experience adjusting to the restaurant's culture.

The results of this study also show that restaurants can profit from CSR practices in product development and customer service. Better financial results were seen in restaurants that catered to a wide range of customers and did their best to ensure that the quality of the service they provided met or exceeded industry norms. The data also shows that eateries that listened to their customers' compliments and criticisms fared better financially. This demonstrates how important customers are to the success and survival of eateries.

**Research contributions**

The results of this study complement previous evidence that corporate social responsibility policies have a positive impact on the bottom line of eateries. This claim is supported by the data. This study complements the CSR literature as it explores four elements of CSR practice that have not been adequately explored in previous studies.

These dimensions include CSR practices' effects on the environment, on human resources, on goods and customers, and on the community. Most published works focus on either a broad overview of CSR or a more specific analysis of specific CSR initiatives. Corporate social responsibility (CSR) encompasses the initiatives taken by businesses regarding their stakeholders, local communities, people, and the environment. However, it does account for the fact that the major objective of businesses is to maximize profits and achieve high levels of financial success.

**Research limitations**

There are a number of caveats to be considered with this study. The first caveat is that this study only applies to the Lebanese hospitality industry; thus, extrapolating the results to other industries or restaurants outside of Lebanon may not be true.

The second defect is associated with the study's control variables. Numerous types of controls have been discussed in the literature (i.e income growth, board size, proportion of non-executive directors, firm age). Furthermore, there may be restrictions imposed by the dependent and independent variable measurements. In order to assess the independent variable (restaurants' financial performance), the Return on Investment (ROI) has been used. However, in other research, ratios depending on the market have been used.

Both text analysis and an original CSR practice index were employed to quantify CSR activities. Due to the lack of a universally accepted metric for CSR, various researchers have used a wide variety of approaches. Some have conducted research using questionnaires and polls; others have employed budgetary or star ratings. Therefore, the outcomes of an investigation into the link between CSR practices and financial performance might vary depending on the method(s) used.
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