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## THE IMPACT OF SOCIAL RESPONSIBILITY ON COMPANY PERFORMANCE IN THE HOSPITALITY INDUSTRY

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**Abstract**

*The hotel management affects the general standard of employees, the level of utility load, the system of ecological burden and businesses in their environment (suppliers, guests, unions, banks, sports and cultural institutions). As hotel companies are capital and labor intensive, the traditional management approach to reducing operating costs is mainly realized through the reduction of salaries. Such an approach of maximizing the financial effects of stockholders provokes discontent of workers (unions), local government and business partners, and consequently reduces the overall quality of hotel services. However, when as a result of such business endeavors occur management decisions that are in the "gray" zone of ethical and moral responsibility, the measures often taken by workers, trade unions and / or related institutions are aimed at promoting and improving the ethical climate and the social responsibility of the hotel companies. The paper follows the idea that competitive advantages on the market result from the positive differentiation from the competition, and that one of the ways involves a socially responsible approach to business. The authors of the paper believe that these immoral actions can be solved through supportive measures and models of "whistle-blowers" that expose the illegal and / or unethical business actions and decisions. In this sense, the paper intends to explore and demonstrate the mentioned measures as a possible solution for reducing adverse effects and thus improving company performance in the hospitality industry. The research model will be based on hotel companies operating in tourist destinations across the Mediterranean, using benchmarking approach to hotel companies in other and comparable tourist destinations. Research results will be transparent and applicable in practice. In order to reach the goal of the paper, quantitative and qualitative methods will be used in primary and secondary data processing.*

**Keywords:** *social responsibility, company performance, whistle-blowing*

## **1. INTRODUCTION**

The quality of tourist services in the tourism market is a result of the quality of work of all the participants in the creation of services, programs, and events. However, the process of market globalization has opened a number of negatives that affect the satisfaction of tourist workers world-wide. Caused by rapid changes in the system of quality of tourist offer, the workers' discontent significantly affects the overall balance of socially responsible business of hotel companies. In this sense the authors try to investigate the importance and the measures of increasing the social responsibility of hotel companies.

Social responsibility is an important area of development of managerial knowledge, skills and competencies for enhancing the quality level of hotel services. For this reason, the aim of the research is focused on proving the social and economic impact of social responsibility on the successful operation of hotels. The research will consider the effect of seasonal tourism cycle to the satisfaction of workers in the tourism and hotel companies, with all of its features.

The primary research question in this paper is: "Does the social responsibility influence the quality of work of hotel staff?". The set goal of research will also try to clarify the question of social responsibility impact on the protection of the interests of the business environment. The paper opens enough space for further research in the area of social responsibility in the hotel companies – which are very labor intensive and where the quality of service depends largely on the workers' level of satisfaction.

The set goal of the paper prompted the authors to possible methods of work, and thus deductive and inductive methods will be applied. Also, the collected data analysis included descriptive statistics, using the statistical package SPSS for windows 20.0.

Based on the set objective, authors have defined the structure of the work. The first chapter investigates the possible changes in the environment and defines social responsibility, with an emphasis on hotel companies. The second chapter analyzes general features of the structure of employees in the hospitality industry, using a benchmarking approach with comparable hotel companies in tourist destinations in the Mediterranean. Finally, in the last chapter, authors prove the thesis of social responsibility in the hotel companies and explore the level of workers' rights and the method of "whistle-blowers".

## **2. CHANGES IN THE BUSINESS ENVIRONMENT AND SOCIAL RESPONSIBILITY IN HOTEL COMPANIES**

The beginnings of socially responsible behavior of business organizations can be found in the 18th century, when corporations built buildings and schools for their employees and their children (Cannon, 1994, p.7). However, since the mid-1990s, the political and public debate on the social responsibility of corporations and the globalization process influenced the development of socially responsible behavior and social expectations for increasing the level of transparency of corporate social responsibility, which includes social, economic and environmental dimensions. Rapid changes in a globalized society, changes in the needs and expectations of tourists demand constant adjustment. Human resource management and a complex system of satisfied employees is the key to success and quality of the hotel offer.

Hotel company and its management operate in a complex system of business environment, which is composed of several factors: a complex ownership structure of public-private interests, the tourism demand, the supply of goods and services necessary for the creation of hotel services, and a system of other stakeholders that have different private or public needs and interests. All these factors work together with the aim of creating a distinct hotel service on the system "value for many", which generates the meeting of needs of all previously mentioned stakeholders. Therefore, the question is how to create a sustainable and balanced social responsibility that will satisfy all interested parties in the creation of high-quality hotel service.

### **2.1. Social responsibility of hotel companies and the changing environment**

Social prosperity is no longer perceived in the context of economic welfare, but also includes the context of social and environmental objectives and concepts of morality and personal values. Companies must constantly fill in the gaps in existing knowledge, resources and systems that support the management in their social awareness and accountability, because management must constantly promote the development of their own abilities. Hotel companies are under pressure of constant changes of tourism demand on the one hand and the constant changes in market supply and labor market on the other. The constant changes of the business environment indicate the need to study specificities of stakeholders as well as special features and relationships between hotel companies and the surrounding society.

In the broadest sense, corporate social responsibility (CRS) is the responsibility of the organization towards the society in which it operates. In the context of this paper, corporate social responsibility is seen as a continuing commitment to ethical business practices and contribution to economic development while improving the quality of life of employees, their families and local communities, and society as a whole (Holme and Watts, 2000, p.8). It can also be seen as the way in which companies consider the impact of business on society, reaffirming its principles and values based on internal methods and processes, in their interaction with other participants. CSR is a voluntary, organizationally oriented initiative, which refers to activities that are considered to go beyond the minimum statutory regulations (Boardman and Barbato, 2008, p.14).

In response to these phenomena, the management of hotel companies is increasingly seeking solutions from expert consultants in dealing with issues of politics and general operations related to their social role, tasks and relationships, especially if the consultants are able to prove their competency in crisis and conflict prevention. These consultants are expected to convince the hotel guests (tourists) and business partners that both social awareness and responsibility is becoming an increasingly important component of basic business principles. They also have a key role in determining the most appropriate manner in which the companies should behave towards owners and other shareholders. The relationship between hotel management and the environment is very complex: local governments, cities and municipalities, tourist boards, concessionaires, government institutions, and the owners - shareholders create a public - private ownership structure where most of management decisions are made at the expense of workers.

### **2.2. Specificities of social responsibility in hotel companies**

Social responsibility is essentially the relationship between management and the environment that is measured by written or unwritten moral rules for evaluating behavior of management and the organization. Social responsibility implies a commitment of management to make the right choices and take actions that will contribute to the welfare and interests of the society and companies.

Social responsibility of management is the obligation to make decisions and take actions that will strengthen the interests and increase the profits of the organization and the society as well; which means that the manager is responsible to company's internal and external environment (owners and workers as well as guests, suppliers, government bodies, municipalities, cities, tourist boards). Therefore, management should consider the wider implications for the society or specific social groups, and possibly be actively involved in solving social problems. They must be able to connect its policies and actions with the environment in a way that brings benefit to the organization and the society.

There are four general areas of activity and the social responsibility in hotel companies:

1. preventing and solving environmental and ecological problems, generated by hotel technology
2. improving education and health issues of communities, individuals and the environment
3. contribution to solving the general human and social problems
4. improving government administration by enabling its managers and professionals engagement in government positions.

In theory, there are different concepts of social and corporate responsibility. The traditional concept of social responsibility emphasizes that maximizing profit and long-term interests of shareholders (owners) is the primary responsibility of management and that management actions should be limited to the economic needs of the organization. The concept of social responsibility to the influential social groups holds that managers have obligations to groups affected by or affecting the achievement of organizational goals (shareholders, tourists - hotel guests, employees, creditors, etc.). The concept of positive (affirmative) social responsibility says that managers and business organizations are responsible to act proactively to meet social needs and improve the social environment in which they operate.

Corporate social responsibility is a term that implies serious consideration of the impact that companies have on society (business environment). One of the appropriate methods of evaluation of management activities is a comparison with the ten commandments of corporate social responsibility, visible in the Table 1.

Table 1

Ten Commandments of Corporate Social Responsibility

<b>TEN COMMANDMENTS OF CORPORATE SOCIAL RESPONSIBILITY</b>	
1.	Thou shall take corrective action before it is required
2.	Thou shall work with affected constituents to resolve mutual problems
3.	Thou shall work to establish industry wide standards and self-regulation
4.	Thou shall publicly admit your mistakes
5.	Thou shall get involved in appropriate social programs
6.	Thou shall help correct environment problems
7.	Thou shall monitor the changing social environment
8.	Thou shall establish and enforce a corporate code of conduct
9.	Thou shall take needed public stands on social issues
10.	Thou shall strive to make profits on an ongoing basis.

Source: *Kreitner, R., Cassidy, C. (2013). Management. Connecticut: Cengage. p.128.*

Listed commandments represent a collection of concentrated thoughts every manager should follow in order to experience minimal criticism by the society.

One of the main difficulties in measuring social responsibility is the answer to managers' fundamental question: "To whom am I responsible?". This question leads managers into constant conflict between striving for the maximum profit and meeting socio-economic objectives of the environment (minimum environmental pollution, paying taxes, paying tourism taxes, donations, gifts, sponsorship of sports associations, cultural societies, etc.). The manager is constantly split between satisfying the interests of owners and the interests of the business environment, and in particular to workers.

In terms of social responsibility, responsible organization is the one that is successful in meeting the interests of the internal environment (the owners - stockholders) as well as the interests of the external environment (the entire society; the Ministry of Finance, municipalities, cities, tourist boards - stakeholders).

According to Carroll (1979, p.497), social expectations can be seen through four types of corporate social responsibilities: economic, legal, ethical, and discretionary. This means that apart from maximizing profit and respecting the law, organizations are expected to act in accordance with the unwritten social rules and voluntarily give support to various social programs.

- Economic responsibility is the first level of corporate social responsibility. All activities are focused on providing a return on investment to owners and shareholders; creating jobs and fair pay for workers; and creating new products and services. From this perspective, business is the basic economic unit in society.
- Legal responsibility is the next level of social responsibility because all companies must be based on rules, laws and regulations that businesses must follow. The company must meet its economic goals within the law created by the competent authorities.
- Ethical responsibility includes behaviors that are not necessarily codified into law, and may not serve the direct economic interests of companies. It portrays business as being moral, and doing what is right, just, and fair.
- Discretionary responsibility means that the organizations have the widest scope of discretionary judgment and choice, in terms of deciding on specific activities or philanthropic contributions that are aimed at giving back to society (Jamali and Mirshak, 2007, p.247)

Levels of social responsibility and a complex system of business environment raise the question of defining the basic principles of social responsibility, which govern the hotel companies. Basic principles of social responsibility by most authors are: a) accountability, b) transparency, b) ethical behavior, d) respecting the interests of stakeholders, e) compliance with laws, f) respecting international norms of behavior, g) respecting human rights (Vujić, 2012, p.98).

The idea that management's competencies are a strong prerequisite for increasing social responsibility, leads to the question of the role and the importance of acquiring the necessary knowledge, skills and competencies of managers and all employees as well. Hotel company's employees should continuously improve their knowledge, in all fields related to the work and activities of the business environment.

### **3. GENERAL CHARACTERISTICS OF THE STRUCTURE OF EMPLOYMENT IN TOURISM AND HOSPITALITY INDUSTRY**

The following chapter is focused on researching the structure of employees in tourism and hospitality industry in the tourist destinations of the Mediterranean countries, focusing on seasonal workers and their general characteristics. The authors wish to explore the structure of seasonal and permanent workers in comparable countries in the Mediterranean.

Studies on the general characteristics of workers are focused on the characteristics of Croatian workers in the hospitality and tourism companies. Due to seasonal businesses of many Croatian hospitality and tourism companies (especially in accommodation facilities on the coast and islands), the volume of total employment is constantly changing throughout the year. From the data shown in the following figure, it is evident that in the system of benchmarking between Croatian and several Mediterranean countries, the structure of permanent and seasonal workers is somewhat different.

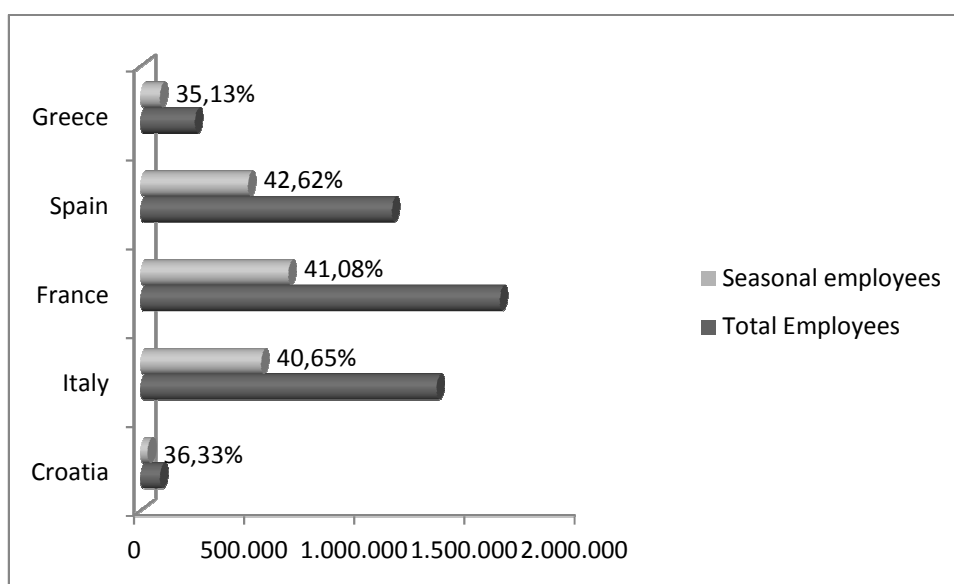


Figure 1 Structure of seasonal workers in tourist destinations in the Mediterranean in the year 2012  
 Source: [www.dzs.hr](http://www.dzs.hr), [http://ec.europa.eu/taxation\\_customs/index\\_en.htm](http://ec.europa.eu/taxation_customs/index_en.htm) (20.05.2013.)

Compared to Croatia, companies of Italy, France and Spain have a higher number of seasonal workers, while the number of seasonal workers is smaller in Greece.

Table 2 shows an interesting structure of the total number of workers in large hotel companies compared to the number of employees in small and family own businesses in 2012 in tourist destinations of the Mediterranean.

It is evident that more developed Mediterranean countries (Italy, France and Spain) have a higher share of employment in large hotel companies and hotel resorts, which can lead to the conclusion that in most cases these are joint-stock companies. In small (family own) businesses, more workers are employed in Croatia and Greece, which proves that the shareholding is more developed in countries with a higher share of large hotel companies. Consequently, it can be assumed that advocates of the development of joint-stock form of entrepreneurship believe that a responsible company is the one that supports the creation of greater value for shareholders (owners).

Table 2

The structure of the total number of workers in large hotel companies in relation to the number of employees in small and family own businesses in 2012, in tourist destinations of the Mediterranean

(%)

	Croatia	Italy	France	Spain	Greece
Large enterprises	62,8	71,3	70,5	69,7	65,1
Small enterprises	37,2	28,7	29,5	30,3	34,9
Total	100,00	100,00	100,00	100,00	100,00

Source: [www.dzs.hr](http://www.dzs.hr), [http://ec.europa.eu/taxation\\_customs/index\\_en.htm](http://ec.europa.eu/taxation_customs/index_en.htm) (20.05.2013.)

Due to the seasonal nature of business, employment in Croatian hospitality industry is significantly reduced after the main summer season. Thus, in December 2012th 65.900 workers were employed in Croatian tourism and hospitality companies, which is about 36% less than in August. This means that these workers were employed seasonally, or only during the summer

months. Of the total number of seasonal workers in the total Croatian hospitality industry in 2012th, about 14.400 workers, or 73% were employed in companies and about 7.000, or 27% by tradesmen and craftsmen.

When observing seasonal fluctuations in employment in relation to the form of ownership in the 2012th, tradesmen and craftsmen at the end of the year employed about 80% of the number of workers employed in August, which means that seasonal workers accounted for about 20%. The ratio of seasonal worker employed in companies makes up almost 30% of the total number off workers.

From the overall findings it can be concluded that the number of seasonal workers is higher in more developed Mediterranean countries. This begs the question of the influence of seasonal workers on the quality of the hotel service as well as the system of social responsibility in the hotel companies. In the following chapter, authors explore the possible conflict between the objectives of shareholders in the globalized world and the demand for greater social responsibility in hotel companies.

#### 4. SOCIAL RESPONSIBILITY IN HOTEL COMPANIES AND WORKERS' RIGHTS

Uniqueness of social responsibility in tourist and hotel businesses is determined by a complex system of the tourism market and the complexity of high capital and high labor intensity of creation and placement of tourist services, where workers play the key role.

##### 4.1. Managing organizational ethics and social responsibility

Reviewing the basic principles of social responsibility ([www.undp.org](http://www.undp.org)) and comparing them with the interests and goals of the business environment, namely shareholders - the owners, suppliers, tourist market - customers, government and non-governmental institutions, it is evident that all participants can easily realize their interests, in the following way:

- owners - through dividends and contracts implemented by their managers,
- state institutions – through fiscal system (taxes), laws and coercion,
- suppliers - through a system of treaties and court decisions,
- other participants such as local and international communities, tourism organizations, utility systems - achieved either through legal norms or coercion.

Workers in the tourism and hotel companies represent that part of the business environment, which seemingly has the least benefit from corporate social responsibility. Although unions have a key role in protecting the interests of workers, the globalized world is increasingly protecting the interests of the owners of capital. In essence, management activities aimed at promoting social responsibility often ignore workers, who are the most important factor in creating quality service in tourism.

Possible dissatisfaction of workers in tourism and hospitality businesses is shown in the following table, which compares the number of workers who were registered in various forms of strikes, protests and similar statements of discontent.

Table 3

The number of organized and registered protests by the workers in the tourism sector in the Mediterranean countries in the period from 2006 to 2012 (per worker per 100,000 employees)

Country/Year	2006.	2007.	2008.	2009.	2010.	2011.	2012.
Croatia	*	*	*	*	0,028	0,029	0,031
Italy	0,812	0,842	0,089	0,091	0,125	0,145	0,151
France	0,058	0,061	0,062	0,063	0,079	0,091	0,092
Spain	*	0,183	0,268	0,393	0,413	0,461	0,474
Greece	*	0,155	0,157	0,282	0,315	0,429	0,393

\* No available data

Source: [www.dzs.hr](http://www.dzs.hr), [www.nationmaster.com/graph/lab\\_str-labor-strices](http://www.nationmaster.com/graph/lab_str-labor-strices) (22.05.2013)

The number of discontent workers in the Mediterranean countries in the tourism sector has grown rapidly in the last three years - in times of crisis. It is noted that Greece and Spain have the largest number of dissatisfied workers in the tourism and hospitality companies.

The management of hotel companies should encourage employees to actively participate in the increase of ethical climate and social responsibility using the following measures (Cerović, 2010, p.143.)

1. Leadership by example,
  2. Codes of ethics,
  3. Ethical structures,
  4. Ethic training and hot line,
  5. Whistle-blowing.
1. LEADERSHIP BY EXAMPLE is the best way in which managers can influence the ethical behavior of its associates and workers. Top managers make commitment to ethical values and help others to embody and reflect those values – through actions, speeches, directives and organizational publications.
  2. CODES OF ETHICS is a formal statement of the organization's values regarding ethics and social issues. Codes of ethics tend to exist in two types: principle-based statements and policy-based statements (Daft, 2010, p.185)
    - Principle-based statements incorporate organizational culture. They define core values and contain general guidance to corporate responsibility, quality of hotel services and the treatment of employees. Principle-based statements are often referred to as corporate credos.
    - Policy-based statements outline procedures to be used in specific ethical situations, including marketing practice, conflicts of interest, observance of law, proprietary interest etc.
  3. ETHICAL STRUCTURES represent the various systems, positions and program a company can undertake to implement ethical behavior (Daft, 2008, p.141).
    - Ethics committee is a group of executives appointed to oversee company ethics. In many small enterprises this is impossible, because workers are completely unprotected, especially seasonal workers.
    - Ethics ombudsman is an official given the responsibility to investigate ethics complaints and points out failures to top management.
  4. ETHIC TRAINING AND HOTLINE programs also help employees deal with ethical questions and translate the values stated in a code of ethics into everyday behavior. An ethics hotline is a method of communication that allows employees who witnesses unethical activities to report them in a confidential manner. Hotlines' confidentiality is particularly appropriate for employees who may still be uncomfortable reporting ethical improprieties.
  5. WHISTLE-BLOWING BLOWERS - employees' disclosure of illegal, immoral, or illegitimate practices on the employer's part. Only a small number of managers in the hotel companies support the participation of whistle-blowers and have programs for their encouragement. Whistle-blowers first report to the owners, then to management, ethics committees or other ethical structures in the company. Finally, they turn to external institutions, such as financial police and journalists regarding dishonest or illegal activities occurring in the company.

Management of the hotel and tourism companies should take specific measures to promote social responsibility in order to increase employee satisfaction as well as the quality of tourism services.



#### **4.2. Whistle-blowing as a method of promoting social responsibility**

Although companies must view whistle-blowing as a benefit to the company, this method is often reluctantly accepted by managers and co-workers.

Managers should must use their knowledge, competencies and skills to encouraged various models and techniques of whistle-blowing, thereby helping to resolve disputes and enhance the interests of privileged groups (the owners - the stockholder and the state system) and other parts of the business environment, with the aim of increasing the quality of hotel services.

Management can also create an open climate in which whistle-blowing becomes unnecessary, by:

- encouraging free and open expression of dissenting viewpoints,
- giving employees a voice through confidential complaint procedures and/or anonymous ethics hot lines,
- finding out what employees think about the policy of corporate social responsibility and make the necessary changes,
- letting employees know that management respects their integrity,
- knowing that the unfavorable treatment of whistle-blowing is likely to lead to adverse public opinion.

The above measures will help management in reducing tensions and eliminating dispute between conflicting parties in a hotel company. The whole series of strikes, protests and different forms of external whistle-blowing is always a sign of workers' discontent, which in the end reduces the overall quality of tourism services. Disgruntled employees in tourism and hospitality industry can easily diminish the experience of different tour programs, events or destinations. Although whistle-blowing is a successful method of increasing social responsibility, management in tourism companies should encourage the development of social responsibility with less protests and discontent.

### **5. CONCLUSION**

In times of rapid changes, management of hotel companies creates a new approach to social responsibility, with the aim of achieving the objectives of the owners, often at the expense of other stakeholders - mostly workers. Social stakeholders in a tourist destination are essentially local inhabitants and most of the companies responsible for creating tourist destination offer.

The idea that management's competencies are a strong prerequisite for increasing social responsibility, leads to the question of the role and the importance of acquiring the necessary knowledge, skills and competencies of managers and all employees as well. Hotel company's employees should continuously improve their knowledge, in all fields related to the work and activities of the business environment.

The number of seasonal workers is higher in the more developed Mediterranean countries and is a possible source of discontent and limited social responsibility. Seasonal employees affect the quality of work as well as the system of social responsibility in the hotel companies.

Management of tourism and hotel companies must undertake specific measures to promote social responsibility with the aim of increasing employee satisfaction and therefore, increasing the quality of the overall tourism services.

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