Media Contacts: Yonghong Jia, yonghong@iastate.edu
David Twiddy, david.twiddy@aaahq.org 941-556-4115

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Study Finds Corporate Social Responsibility Boosts Tech Innovation

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Lakewood Ranch, Fla. _ Companies that take corporate social responsibility (CSR) seriously have an advantage when it comes to developing innovative technologies, according to a recent study published by the American Accounting Association. Given innovation's importance to long-term profitability, the finding supports the idea that companies can do well by doing good.

At issue is the concept of CSR, which is when businesses take social and environmental matters into account while making business decisions, rather than focusing solely on generating profit.

"CSR has been a topic of significant discussion in the business community for decades, with some arguing that CSR can hurt a company's bottom line," says Yonghong Jia, co-author of the study and an associate professor of accounting at Iowa State University. "We wanted to get a deeper understanding of how CSR can benefit a company by examining whether CSR can influence a company's technological innovation."

To that end, the researchers looked at publicly-available data from 2,403 companies. They used CSR ratings from an independent vendor to assess each company's CSR performance. The researchers measured technological innovation by looking at each company's patents and the number of times each patent was cited by other patents, which is a proxy for determining the extent to which a patent has a market value. The researchers then used complex models to account for confounding variables, in order to determine the extent to which CSR and tech innovation were related.

"Simply put, companies that were more engaged in CSR efforts had stronger performance in the field of technological innovation," Jia says.

But there were four factors that made CSR's effect on tech innovation more pronounced.

"If a firm has an engaged board, that helps boost the impact that CSR efforts have on tech innovation," Jia says. "The same is true when there is stronger CEO leadership; when a company has a higher paid workforce and competes in a field that requires greater technical skill; and for complex firms, which compete in multiple business sectors."

The researchers also found that the internal capabilities in a company that relate to CSR and foster innovation lead to innovations in areas beyond social or environmental issues.

"For example, the CSR effect was not just about improving innovation for 'green industries,'" Jia says.

"The takeaway for the business community is that CSR provides a tangible benefit – because innovation gives firms a sustainable competitive advantage that can provide long-term value creation and support future growth," Jia says. "That benefits shareholders."

And there are lessons for accounting professionals as well.

"This work helps us understand the relationship between CSR and profitability," Jia says. "As accounting moves forward with integrated reporting that better captures the entirety of a firm, it's increasingly important for us to understand these relationships."

The paper, "Corporate Social Responsibility and Technological Innovation," is published in the *Journal of Management Accounting Research*. The paper was co-authored by Xinghua Gao, an assistant professor of accounting at Washington State University; and by Boysie Billings, a professor of accounting at Wayne State University.

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