

AN EMPIRICAL INVESTIGATION OF THE LINK BETWEEN PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY IN THE INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS INDUSTRY

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ABSTRACT

The purpose of our research is to explore the relationships among corporate social responsibility indicators with financial success measures in the Information Technology and Telecommunications industry. Corporate social responsibility (CSR) relates to the “economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979). We examine the relationships between the Employee Relations and Diversity aspects of social responsibility in the Information Technology and Telecommunications (ITT) industry and accounting measures of financial success. In addition, we investigate the relationship of these CSR aspects with Tobin's Q, a measure of market success. Prior research suggests CSR should be an ethical stance without any expectation of getting rewards, however, it also does not reject the notion that CSR should be aimed at enhancing profitability.

To test four CSR related hypotheses, we combine panel data from the Compustat and the Center for Research in Security Prices (CRSP) databases with the Socrates database from Kinder, Lydenberg, and Domini (KLD). The hypotheses are:

H1: A significant positive relationship exists between Employee Relations and Accounting Measures of success.

H2: A significant positive relationship exists between Diversity and Accounting Measures of success.

H3: A significant positive relationship exists between Employee Relations and Market Measures of success.

H4: A significant positive relationship exists between Diversity and Market Measures of success.

The study involves panel data from the Information Technology and Telecommunications industry over the period 2004 – 2010. The KLD Socrates database contains indicator variables

for numerous categories of social performance. This database is used extensively in business ethics and socially responsible investing research; e.g., Hillman and Keim, 2001. We use two of the measures found in the KLD database to represent our organizational culture factor, Employee Relations and Diversity. Each of these measures has multiple facets. Employee Relations encompasses policies and practices addressing profit sharing, health and safety, unions and supply chain. It also incorporates employee involvement and an “other” category indicative of strong employee relation initiatives not covered elsewhere in the database. Diversity as reflected in the KLD database encompasses aspects of women and minorities promotions, board memberships, and subcontracting. It also addresses gay and lesbian policies. Of particular interest for our research is the incorporation of work-life benefits into the Diversity variable.

The results of this study have implications for Information Technology and Telecommunications firms. There are, as is often the case, trade-offs between short-term and long-term effects of Employee Relations and Diversity decisions. Decisions that save costs, thus increasing net income, all things being equal, improve ROA and ROE. However, these same decisions are incorporated into market price. Because the markets are forward-looking, we expect that the relationship between human resource activities (anticipated behavior) on the part of Information Technology and Telecommunications companies positively impact the prior year’s Tobin’s q .