

Peer Review

Review of: "Analyst Perceptions of Corporate Social Responsibility: A Replication and Extension of Ioannou and Serafeim (2015)"

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Summary

The authors replicate and extend an influential paper from 2015 by Ioannou and Serafeim (I&S) on explaining the connection between CSR and stock returns, entitled "The Impact of Corporate Social Responsibility on Investment Recommendations: Analysts' Perceptions and Shifting Institutional Logics." Utilizing the same data source and method as the 2015 publication, the authors cannot reproduce the empirical evidence in I&S. The authors further identify and rectify major methodological concerns about I&S centered around regression to the mean. In particular, the authors utilize a regression specification, where CSR interacts with a parameterized time variable, and conduct tests at the level of analyst recommendation to ameliorate the confounding effects of pooling annual sequential samples and pooling analysts. Nevertheless, no evidence is unearthed to support the empirical implications of I&S.

Contribution

The paper makes multifaceted contributions. Firstly, it emphasizes the necessity for replication in social science by re-examining findings of a widely influential paper on CSR and analyst recommendations. Secondly, by identifying and rectifying empirical concerns in the I&S paper, the authors highlight the importance of methodological rigor for us to understand complex and nuanced relationships. Finally, given the sheer volume of attention that this topic has received in the current business world, the authors make a profound practical implication that incorporating CSR into business strategies without thorough research may result in sub-optimal investment decisions, thereby undermining both shareholders' interests and corporate sustainability performance.

Comments

This paper is well-written and has profound academic and practical implications. I have a few minor concerns, and I hope my comments are helpful for the authors to further improve the study.

1. It is not clear to me whether the continuous time variable in Eq. (6) and Eq. (7) would ameliorate the potential confounding effects of regression to the mean, as the underlying assumption of the continuous variable is that analyst behaviors only change gradually. As such, the specification with the interaction term between CSR and the linear time variable cannot control for sudden change, resulting in biased estimates. It might be advisable for the authors to focus on year dummies as they allow parameter estimates to vary year over year.
2. I agree with the author that analyst-level regressions contribute a nuanced perspective regarding CSR and stock returns. However, I suggest that the authors should provide more information about the analyst-level setting. For instance, would the authors take an average if a specific analyst revises her recommendation for a firm multiple times in a year? Or would the authors only use the last recommendation in a year? The findings might mask the nuanced behavior change if the average recommendation, albeit at the analyst-firm-year level, is used.
3. In addition, the analyst-level tests significantly inflate the sample size. The CSR metric doesn't change for a firm in a specific year, and recommendations issued by different analysts for the sample firm in a specific year might be highly correlated with each other. Accordingly, the significantly inflated sample might mechanically reduce the standard error, resulting in a Type I error. However, this biased estimation might not work against the main purpose and implication of the paper given the fact that the findings are still insignificant.
4. I'm wondering if the authors could incorporate more fixed-effect dummies and build a more robust and granular set of fixed effects for the analyst-level regressions. For example, the authors may include firm fixed effects and joint fixed effects between firm and year or analyst and year.
5. It seems that the authors do not explicitly specify how the standard errors are estimated for all the regression models. The authors should carefully cluster the standard errors either at the unit level or at the year level, as it is the major shock of the study (e.g., Bertrand, Duflo, and Mullainathan, 2004).

Finally, this article reminds me of a recent paper in *Proceedings of the National Academy of Sciences*, entitled "Observing many researchers using the same data and hypothesis reveals a hidden universe of uncertainty." That study coordinates 161 researchers in 73 research teams and observes that due to conscious or unconscious idiosyncratic choice of researchers during data analysis, the same data sources

and hypothesis lead to diverging and inconclusive findings. Likewise, in this article, even though the authors follow the best practices of replication, data sources have been updating over time, and the results, especially quantitatively, are likely to alternate accordingly. As the proverb goes, “You can never step into the same river twice.” Despite the inherent uncertainties of empirical research, this highlights the importance of appreciating the consensus we do achieve in social science.

Reference

Bertrand, M., Duflo, E., & Mullainathan, S. (2004). How much should we trust differences-in-differences estimates?. *The Quarterly journal of economics*, 119(1), 249-275.

Breznau, N., Rinke, E. M., Wuttke, A., Nguyen, H. H., Adem, M., Adriaans, J., ... & Van Assche, J. (2022). Observing many researchers using the same data and hypothesis reveals a hidden universe of uncertainty. *Proceedings of the National Academy of Sciences*, 119(44), e2203150119.

Declarations

Potential competing interests: No potential competing interests to declare.