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Peer Review

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

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Comments re: Analyst perceptions of corporate social responsibility: A replication and extension of Ioannou and Serafeim (2015)

This comment is a reflection on this replication study around the changing association between the tone of analysts' recommendations and a firm's CSR performance over time. As a starting point, personally, I am predisposed towards the basic conclusion drawn by Ioannou and Serafeim (2015). I see no reason to doubt that there has been a change (strengthening) in societal attitudes and policy over time as it relates to both CSR disclosure and CSR performance (witness, for example, the advent of the TCFD and the Paris Accord, among many other illustrations). Logically, then, sophisticated analysts can be expected over time to not only increasingly consider a firm's underlying CSR behaviour but also to more critically distinguish between well-performing and poorly performing CSR firms. Equally, any continuing implications of a firm's peer-relative CSR performance for its financial performance and/or risk should be reflected through valuation, and to the extent it relates directly to risk, also through returns in equilibrium. On this basis, it seems reasonable to expect that as analysts (as proxies for the capital markets) increasingly incorporate the CSR dimension into their decisions, we would expect poor CSR firms to exhibit lower valuation and higher returns. In contrast, from the alternative perspective, I also note that the authors characterize Ioannou and Serafeim (2015) as having 'outsized influence' and that it 'represents a good candidate for replication and rectification' (pg . 6). Notwithstanding, my reading of the study leads me to the clear conclusion that the authors have conducted their replication in a careful and unbiased fashion. It is against this backdrop that I frame my comments below.

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First, the authors' portrayal of 'regression to the mean' as presented through their Figure 1 does not fit with my basic understanding of the notion. In general, 'regression to the mean' reflects situations where firms exhibiting (unusually) high values of an attribute will exhibit lower values in the future, whereas the converse will be true for firms exhibiting (unusually) low values. In contrast, Figure 1 appears to present what might be labelled as a 'step function', with low (negative) values in the early years and then positive and constant values in the subsequent periods. This is similar to the pattern that the results that Ioannou and Serafeim (2015) document – while not a step function literally, Ioannou and Serafeim (2015) find an initial negative relation but that the negativity of the relation systematically weakens over successive time periods.

Second, I agree that there is the possibility that the composition of individual analysts contributing to the calculation of the mean recommendation may (clearly, in fact, does) change over time. However, this should only be a concern if the authors can explain how or why any change in the pool might systematically impact the mean recommendation. If they can't, then the changing pool likely just represents noise.

Third and critically, the authors are unable to replicate the original Ioannou and Serafeim (2015) results even though they (to the best of their ability) attempt to use the same sample construction criteria and the same databases. Specifically, on page 11, they state, "In total, the estimates presented in Tables 3 and 4 provide no support for I&S's principal hypothesis".

This inability, I find, is concerning. As an additional source of concern, while Table 1 shows functionally the same sample sizes for Ioannou and Serafeim (2015) and the replication conducted by the authors in this study, and also a very similar mean analyst recommendation, there are some distinct differences. Noteworthy among these are the differences in CSR strengths, CSR weaknesses, market-adjusted return, and ROA. Further (or relatedly), the results for several core control variables are quite different.

Thus, rather than then turning to advance alternative econometric approaches or models (what the authors label as 'Extension' starting on page 13), I believe that the authors' first challenge is to attempt to reconcile and thereby understand the differences in key findings for their replication relative to Ioannou and Serafeim (2015). In terms of developing an understanding of the potential sources for the difference, clearly one key concern is the changing nature of databases over time, specifically the time when accessed (year and database iteration). As the authors clearly state in terms of the analysts, "One possible explanation is that IBES improved or changed its coverage over time." In this regard, the literature also confirms that KLD changed substantively over time. In both instances, if in accessing these databases in

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a much later year than Ioannou and Serafeim (2015), the authors in fact can't recover the original data but only a modified form, then it isn't clear how the results from the two studies should be compared.

Continuing, in this regard, clearly it is the original data that is relevant to the debate (replication) because it is those data that were available in the public domain at the time the analysts made their recommendations – neither the updated (modified) data nor the updated (modified) methods or inclusions that the current databases comprise were available at the time Ioannou and Serafeim (2015) accessed them (and items or perspectives reflected through the modifications perhaps not even considered).

Thus, in sum, I hold a number of concerns (expressed above) that I believe need to be addressed before I (personally) am willing to 'give away' the findings and conclusions of Ioannou and Serafeim (2015), and accept those of a 'non-result' as presented in the current study. Clearly, however, the current study presents an interesting starting point for a continuing dialogue around the role (and changing role) that a firm's CRS behaviour and profile plays in the formulation process analysts engage in when developing their outputs. I see their inability to replicate as an exceedingly weak basis for moving forward to the extensions that the authors consider – only if they are framed relative to this inability to replicate do I see them as the reasonable 'next step forward'.

Declarations

Potential competing interests: No potential competing interests to declare.

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