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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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Review Report on Manuscript: Replication and Extension of Ioannou and Serafeim (2015)

The authors aim to replicate and extend the findings from Ioannou and Serafeim (2015), which explored the influence of corporate social responsibility (CSR) ratings on financial analysts' stock recommendations over time. This study reassesses the hypothesis that analysts' attitudes become more favorable over time.

Summary of Contributions

The authors begin by restating the original hypothesis with modified test models by year and individual recommendations. They test for time-varying effects using interaction terms with time or through year-by-year regressions that display coefficient trends over time. While I value this approach, I find some issues in addressing individual recommendation changes over time, as I described in the methodology section.

They critique Ioannou and Serafeim (2015) for employing a relatively coarse approach—splitting the sample into early and late periods and comparing average coefficients. The current authors argue that this approach does not conclusively support the hypothesis of evolving analyst perceptions and is not "dispositive," a point with which I agree. However, Figure 1 in the manuscript illustrates the simulated "true" effect of CSR, yet the simulation methodology itself is not clearly explained in the manuscript.

Methodological Extensions



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A key contribution of the paper is its attempt to track changes in individual analyst recommendations rather than firm-level averages. While aggregating recommendations can show consensus shifts, tracking individual analyst behavior introduces other issues in tracking all the recommendation changes within a year. Especially due to these kinds of concerns, the authors should acknowledge that many studies in finance and accounting use aggregated consensus measures for good reasons (please refer to Michaely, Rubin, Segal, and Vedrashko, 2021 for references).[1]

The manuscript mentions changes in the KLD rating system over time, but this aspect could be elaborated further. Specifically, it would be helpful to assess whether the evolving nature of KLD metrics may itself affect the observed relationship between CSR and analyst recommendations. Maybe testing with other CSR-related measures consistent over time might reveal more insights. The different findings might be due to the change in the characteristics of the KLD measure itself.

Data Concerns and Sample Construction

The authors use data that is similar in scope and nature to the original study but may differ in sample composition. While they attempt a replication without applying the original study's eight-year firm survival filter, their findings are weaker. When the authors impose stricter criteria (e.g., requiring firms to exist for eight or more years), the CSR coefficients are largely insignificant. Their year-by-year regressions reveal significance only for the 1996 sample, further questioning the robustness of the original study's claims.

Another important extension involves using analyst-level recommendation changes. According to Table 6, the average number of analyst recommendations per firm-year is approximately 2.01. If each recommendation change is treated as an independent observation, the total sample size becomes about 20 times larger than the firm-level sample—raising potential concerns about over-representation of recommendation changes that happened within a year. The manuscript would benefit from a clearer explanation of how multiple recommendations by the same analyst within a year are handled. This decision likely has a material effect on the results.

Additionally, there are a couple of spots that need some editorial work. In equation (4), I guess the authors meant "where" instead of "whey". In addition, there appears to be a mis-reference in the discussion on page 16: the text refers to Table 6, but the results discussed appear to come from Table 7. This should be corrected for clarity. There may be other places I have overlooked, but I urge the authors to review the manuscript carefully to reduce any errors before submission for publication.

Overall, the authors make a meaningful attempt to refine the empirical tests used in Ioannou and Serafeim (2015) and introduce analyst-level analysis incorporating time trend interaction. Nonetheless, due to some issues I raised above, we cannot decisively tell whether we can conclude that CSR did not influence the perception of financial analysts. As I mentioned, the new information environment should be considered, not the old metric, to test for the extended period. However, their findings suggest that some potential source of bias was captured in Ioannou and Serafeim (2015) because when the time trend was tested directly, the previous findings were wiped out. While the paper notes potential concerns with the KLD CSR rating system, I call for the use of alternative measures.

Recommendation

I recommend the authors consider the following points:

1. Is it still useful for us to understand CSR information using KLD? How about alternative measures like other CSR ratings from different agents?
2. Resolve frequency-mismatching data—more frequent recommendation changes than CSR ratings. Try to introduce some measure like the number of changes in recommendation within a year, while you pick the change from the beginning of the year to the end of the year as the main test variable.
3. Also, consider incorporating other qualitative measures like the frequency of change in recommendation, the dispersion of the recommendation, etc.

[1] The article is accessible at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3663084

## Declarations

**Potential competing interests:** No potential competing interests to declare.