International Review of Accounting, Banking and Finance
Vol 6, No. 2, Summer 2014 Pages 1~42

I R A B F

Corporate Social Responsibility and Analyst's Recommendation

Yuan Chang[a], Ting-Hsuan Chen[b], Hsiu-Hsia Chou[c], Yu-Fong Shen[d]

a. Department of Finance, National Changhua University of Education

b. Department of Finance, Providence University

c. Department of Finance, Chihlee Institute of Technology

d. Department of Accounting, National Taiwan University

Abstract

Investment analysts act as important capital market participants that transmit information about the merits of doing CSR on firm's financial perspective to investors. If an analyst perceives that CSR engagement is value-enhancing, then he/she tends to rate a "buy" for the firm with superior CSR performance, and vice versa. This paper examines the linkage between a firm's CSR engagement and its frequency of analysts' recommendation and how favorable recommendations are. Quarterly data of listed companies on the Taiwan Stock Exchange (TWSE) from 2005Q1 to 2012Q2 is employed. We construct dichotomous CSR measures based on the *Common Wealth*'s "Best-Corporate-Citizens" and the *Global Views Monthly*'s "CSR-Award." We collect firm data about analyst recommendations from the DataStream I/B/E/S database. Regression results generally show: (1) firms with superior CSR performance have a higher percentage of hold recommendations and a smaller percentage of buy/sell recommendations; (2) CSR-firms do not have a superior recommendation score than non-CSR-firms and receive a lower frequency of recommendation; (3) while CSR-firms in a high-growth industry receive a higher percentage of hold recommendations and lower frequency of buy recommendations, CSR-firm in a non-high-growth industry receive a lower percentage of hold recommendations and a higher frequency of buy recommendations; and (4) after controlling for self-selection of firms engaging in CSR, firms with superior performance on CSR tend to have a greater percentage of hold recommendations, a higher recommendation score and a higher frequency of recommendation. The evidence generally supports the view that firms engaging in CSR receive financial market benefit in terms of more favorable analyst recommendation, potentially enhancing their market value.

Keywords: CSR, Analyst Recommendations; **JEL**: M14, G34, G11