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**Earning the ‘write to speak’: sell-side analysts and their struggle to be heard**

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## Abstract

This paper explores the ways in which sell-side financial analysts seek to position themselves advantageously within the wider field of investment advice in spite of widespread skepticism over the value that their forecasts and recommendations add to investment decisions. The field of investment advice has been characterized in recent years by a number of regulatory and technological changes that have forced sell-side analysts to reconstitute the ways in which they influence the investment decisions of buy-side actors. Faced with existential threats, sell-side analysts have responded to the disruptive impact of technology and regulation by struggling hard to ensure that their services are still valued by fund managers. Key to this ongoing process is the recalibration of professional expertise, which previous research has alluded to but not explored in detail. Central to the persistence of sell-side analysts in processes of investment decision-making are activities revolving around the production and use of analyst reports which, our findings indicate, are less valuable for their informational content than their role as ‘relational devices’, ascribing legitimacy to sell-side analysts and earning them an entry ticket to more substantive, value-adding interactions with companies and buy-side actors. We also show that economic considerations in the area of investment advice are influenced by social ties, the motivations of various actors in the field and their relative position vis-à-vis other actors. More generally, we contribute to literature on professional projects by showing how professional groups are constantly engaged in attempts to reposition themselves in the social space, but that field-level changes can restrict the outcomes of these strategies to mitigation rather than advancement for the professionals concerned.

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## 1. Introduction

For at least two decades sell-side (hereafter SS) analysts have been the subject of intense scrutiny in the accounting and finance literatures. However, while extant literature pays much attention to the characteristics of SS analysts' research outputs, we have scarce empirical knowledge about what SS analysts actually do beyond writing reports. Futhermore, there is little agreement in the literature on how, if at all, analysts affect investment decisions. Lo (2012), for example, comments that we have little knowledge about *how* or *why* analysts produce forecasts, recommendations and research reports. Moreover, Institutional Investor surveys, a widely-accepted publication by investor practitioners (see *the Institutional Investor (II)*, All- American Survey), consistently recognize that investors are not generally interested in SS analyst recommendations. Yet literature continues to accord great importance to the informational power of analyst reports. This is true even of many sociologically oriented studies (see, for example, Fogarty and Rogers 2005; Tan 2014).

Bradshaw (2011, p.39) suggests that this lack of knowledge is due to the opacity that surrounds analyst practices – the 'black box' within which analysts work. Bradshaw goes further and criticizes extant research's primary focus on the accuracy of analyst estimates and predictions:

> If an individual with no understanding of sell-side analysts were to attempt to understand what they do based on a reading of our academic literature, that person would surely conclude that one of the things most important to analysts is their earnings forecasts. I contend that this would be a gross mischaracterization of the analyst's job function, and hence his/her incentives. I believe such a view characterizes that of many academics, and as a result impedes our ability to further our understanding of sell-side analysts.

This observation is coupled with the fact that the research literature on SS analysts is predominantly quantitative, relying on numerical data aggregated from the analysts' written reports.

In contrast, understanding how analysts operate *in situ* rather than examining their products would require qualitative methods. This approach, however, is virtually unused in the literature. For example, we could identify only two empirical studies (i.e., Barker 1998 and Imam and Spence 2016) that explore whether accuracy of prediction is indeed a valuable aspect in the knowledge that SS analysts produce (see also Beunza and Garud 2007 for a theoretical discussion of this phenomenon).

We believe that the lack of attention to how SS analysts operate in the investment field, and in particular how they interact with buy-side (hereafter BS) analysts and fund managers (hereafter FM), intensified by a narrow methodological focus on numerical and textual data analysis, has led the literature into an unsubstantiated causal assumption. Mainstream accounting and finance literature focuses on examining and analyzing the content of analysts' reports and their assumed impact on market behavior. Studies in this domain employ sophisticated statistical tools and offer rigorous results. However, these studies also presuppose a certain manner in which reports are used in investment decision-making. In spite of the commonality of this presumption in the mainstream literature, there is very little research that examines empirically how reports are actually being used (if at all) and what overall influence the SS exerts upon the professional investment practices of the BS. Motivated by these gaps, we examine the dynamics through which SS analysts take part in producing knowledge and the roles that these actors play in investment decision-making processes.

Our approach to exploring this research problem is both qualitative and sociological. Drawing on 57 interviews with SS and BS actors, we explore in detail the social, organizational and technological dynamics that surround and frame the activities of SS analysts. As a theoretical lens, we focus on the different forms of expertise that the SS analysts cultivate and deploy. This leads to a view of SS analysts as actors with 'social skill' embedded within a socially constructed and historically contingent 'field' (Fligstein 2013), rather than as atomistic information processors within the atemporal and ahistorical lens of a relatively efficient market. We find that SS analysts have been affected by far-reaching regulatory and technological changes, which have contributed to concomitant processes of change to the practices of SS, change to their relative power in relation to other actors in the field and, ultimately, changes to the nature of expertise they employ and the nature of knowledge they help to generate.

Our research contributes to the accounting literature about the role of SS analysts in investment decision-making. In particular, we shed new light on our understanding of the usage of SS reports. Our findings indicate that the reports are not used as information inputs to professional investors' decision-making processes, but are relational devices, tools that contribute to the legitimacy and relevance of SS analysts, helping provide access to and enabling trustful tête-à-tête dialogue with fund managers. This has been observed before (Barker 1998), but the present study goes further by providing details of the motivations and activities the various actors perform, which enable and frame the perceived value that SS analysts add to the BS during these oral encounters. We find that the interactions between BS and SS are regarded by the BS as co-constitutive knowledge generation, whereby interpretations are positioned in different contexts and jointly interrogated. These findings challenge existing notions in the literature about the informational value of analyst reports in investment decision-making and shed new light on sources of analysts' value in the field of investment advice as well as the development and use of reports as relational devices. Finally, we show that professionals employing social skill (Fligstein 2013) do not always succeed in advancing their professional projects (Radcliffe et al. 2018; Suddaby and Viale 2011) but can be restricted to strategies of mitigation instead.

The remainder of the paper is structured as follows. The following section highlights the key insights gleaned from a systematic review of the literature on SS analysts, followed by the presentation of our theoretical framework and research questions. The research methods are introduced in section 3, broken down into data collection and data analysis. The empirical findings are presented in section 4, before proceeding to a concluding section where the study's main insights and purported contributions are discussed. Some limitations of the study are highlighted and suggestions offered for future research in this area.

## 2. Conceptualizing financial analysts

SS analysts work in the equity research departments of investment banks and brokerage houses. They are responsible for covering a particular sector or sub-sector and provide industry and company analysis including forecasts, target prices and recommendations vis-à-vis the companies they cover. These analysts write research reports which are distributed to prospective and existing clients, i.e., FMs and BS analysts,[1] and are also available in the public domain via various databases such as Bloomberg and Investext. For their part, individual BS analysts (who are also known as in-house analysts) work for institutional investment firms and are generally responsible for the coverage of more companies and industries than individual SS analysts. Their main responsibility is to provide investment recommendations and research support to FMs. Unlike SS analysts, BS investment recommendations are not in the public domain. There are other differences in incentives and responsibilities across these two groups (see Hirst and Hopkins 2000; Groysberg et al. 2008; Imam et al. 2008). One important difference between them is that, unlike SS analysts, the BS is held responsible for stock picks (Brown et al. 2016).

[1] According to an article published in the Economist, asset managers are bombarded by as many as 1.5 million reports a year by research analysts, of which only 5% may actually be read (The Economist, 2014).

BS analysts maintain regular contact with SS analysts, and survey evidence suggests that over half of BS actors have private communication with SS analysts at least 24 times a year (Brown et al. 2016). Imam et al. (2008) reveal that SS analysts' valuation model choices are driven majorly by preferences of the BS. According to many SS analysts, the client is king, and SS analysts are obliged to present models and analysis in accordance with client preferences. Imam et al (2008) found similar ranking of valuation model choices and interdependencies in analyst work (also see Barker 1998).

In addition to SS analysts' expertise in following a company, the frequency of SS analysts' communication with senior management is one of the major determinants of BS analysts' decisions to use information from SS analysts (also see Imam and Spence 2016; Graaf 2018).[2] This persists in spite of widespread perceptions of collusion with management and conflicts of interest (Macintosh et al. 2000).

In this paper, first, we conceive of analyst work through the prism of the sociology of expertise (Eyal 2013), which sees expertise not purely as a property of individuals but, instead, demands examination of the relational dynamics of actors vis-à-vis other groups within social arenas. Second, and building on this relational view of analyst work, we suggest that the dynamics through which the production, communication and consumption of investment-related knowledge take place can be understood as a field (Bourdieu 1986; Fligstein 2013). Field theorizing implies that SS analysts are placed in a multifaceted and highly competitive social space that is characterized by struggle and position-taking.

We deconstruct expertise along the intertwining dimensions of 'substantive' and 'relational' expertise (Barley 1996). Substantive expertise reflects the embodiment of expert

[2] Also, Bradley et al. (forthcoming) suggest that professional connections with the analyzed firms are important for SS analysts as BS analysts allocate greater trade commissions to brokers employing professionally connected analysts.

knowledge, concepts and tools; relational expertise is both ‘situated’ and ‘contextual’, reflecting the ability to navigate the social realities of professional work. These two interrelated dimensions, we argue, are evident as they are applied dynamically in various professional settings. For example, a recent US study (Sandefur 2015) shows that professional lawyers were markedly more successful than individuals who represented themselves in court, but not because lawyers have greater mastery of legal doctrine or case law. Rather, lawyers outperform lay advocates primarily because the former have more situated and tacit knowledge about how courts operate, how to deal with specific judges and, more generally, how to behave in different situations. The relational expertise of lawyers, thus, was more important in civil cases than substantive expertise. Similarly, Carter and Spence (2014) show how as accountants progress in their career paths they are required to distance themselves from technical knowledge, which is seen as the preserve of subordinates, and instead cultivate interpersonal skills, establish rapport with clients, mentor junior colleagues, etc. This shows a dynamic whereby relational expertise progressively displaces substantive expertise as professionals assume more senior positions.

Relational and substantive expertise also exhibit more sophisticated dynamics, whereby establishment and performance of practices based on one type of expertise help to constitute another type. Such dynamics relate to the notion of ‘situated action’ (Suchman 1987), which emphasizes the emergence of knowledge through a series of interactions. This notion was developed further in empirical examination of relational practices through which “all-important interpersonal networks are formed, embedded, and *used so as to create time and space through which knowledge and its production can be stretched*” (Faulconbridge 2007: 931, italics added). Such ‘stretching’ of knowledge implies that elements of relational expertise, for example a favorable position in the social network within which the expert operates, help such experts to generate opportunities for utilizing their substantive expertise. Similarly, effective utilization of substantive expertise is likely to improve the expert's standing and reputation, thus contributing further, potentially, to the expert's relational expertise. Similarly, dynamics between substantive and relational forms of knowledge may also comprise a negative feedback loop whereby, for example, a diminished reputation may be translated to limited access to relevant information and the production of lower quality professional advice.

Extant literature on financial analysts can be grouped into two broad categories – mainstream accounting and finance literature with a largely economistic bent and sociological literature that has privileged fieldwork and theoretical exegesis. We argue below that the former has developed along problematic methodological lines, privileging a view of analyst work that is driven by a rather narrow and homogenous subset of substantive expertise; the latter stream of research has offered more multifarious accounts of analyst work, teasing out elements of both relational and substantive expertise, but questions remain about the ways in which these different dimensions of expertise relate to each other in the field of investment advice. Moreover, in both cases, further work is needed to explore the changing ways in which financial actors in the field of investment advice interact, the way in which status is accorded in the field and to illustrate in more detail the roles that analyst reports play in investment decision-making.

### *2.1 Problematizing extant economistic literature on analysts*

Extant literature in accounting and finance regards SS analysts as important information intermediaries who provide relevant knowledge to decision-makers such as investors, fund managers and brokers, primarily in the form of earnings forecasts, buy/sell recommendations and target prices (Schipper 1991; Ramnath et al. 2008; Bradshaw 2011). This stream of research is supported by the assumption that analysts' outputs are relevant to investors' decision-making (Stickel 1995; Womack 1996; Barber et al. 2001; Brav and Lehavy 2003; Asquith et al. 2005;

Frankel et al. 2006; Kelly et al. 2012; Twedt and Rees 2012; Huang et al. 2014; De Franco et al. 2015 among others).

This initial inference was also supported by a systematic survey of the literature we conducted. We identified 168 research articles that examined financial analysts published between 2008-2015 in 17 top-ranked academic journals in the fields of accounting, finance, management and organization studies.[3] Of the 168 articles identified, 137 (81%) focused on various estimates or contents in analyst reports, with 89 (53%) papers analyzing earnings forecasts, 24 (14%) stock recommendations and 16 (10%) examining other estimates such as cash flow forecasts, target prices, growth forecasts etc. These elements tend to be treated as either independent or dependent variables and then regressed against some measure of either accuracy or some measure attempting to capture their impact on investment decision-making. For example, 30 (19%) articles investigated factors affecting the accuracy of analysts' forecasts, price targets or stock recommendations, 14 (9%) characteristics of these summary measures and 52 (31%) market reaction to the summary measures and analyst coverage decisions.[4]

By focusing so voraciously on the content of SS analysts' written reports, extant research takes for granted that these constitute a central pillar in investors' decision-making. There is also a general presupposition that the 'supply chain' is unidirectional: SS analysts produce the reports and the BS consume them and act according to the directional signals therein. Yet this same literature is also successful at highlighting areas in which analyst reports

[3] The Journals we analyzed are Accounting, Auditing and Accountability Journal; Accounting and Business Research; The Journal of the Academy of Management; Accounting, Organizations and Society; Administrative Science Quarterly; Contemporary Accounting Research; Journal of Accounting and Economics; Journal of Accounting Research; Journal of Financial Economics; Journal of Financial & Quantitative Analysis; Journal of Management Studies; The Journal of Finance; Management Science; Organization Science, Organization Studies; Review of Accounting Studies; and The Accounting Review.

[4] Bradshaw (2011), who reviewed analyst literature till 2008, makes similar observations. The list of articles we surveyed is available from the authors upon request.

prove to be inaccurate or perhaps biased in some way by the incentives emanating from the surrounding institutional context (see, for example, Das et al. 1998; Fogarty and Rogers 2005; Groysberg et al. 2011; O'Brien et al. 2005; Lin and McNichols 1998). Overall, extant research on SS analysts finds itself at something of an impasse: it successfully points out that SS analysts are inefficient at producing forecasts and predictions that, according to Institutional Investor surveys, appear not to be highly valued by investment decision-makers in any case (Beunza and Garud 2007; Brown et al. 2015; Imam and Spence 2016). Yet SS services are still purchased with regularity and at significant cost to institutional investors. This is a puzzling situation that this stream of research fails to explain adequately.

Specifically, we identify two interrelated areas of weakness that characterize economistic research on financial analysts: (a) methodologically it has focused on reports and the correlation between their predicted numerical values and stock prices, rather than examining how the reports are produced and what roles, if any, they play in BS decision-making; and, (b) SS analyst output production and its use by the BS is conceived as a simple unidirectional process, with supply meeting demand rather than looking at any dynamic interplay between the two. This leads to a problematic reification of both SS and BS. While the former are reduced to the substantive expertise that becomes transposed into their reports, the latter are ignored almost entirely and end up being equated simply with 'the market' *tout court* rather than as an actor or group of actors operating therein. Our literature review revealed only two out of 168 of studies looking at BS actors and even these two studies only did so in the most cursory fashion. It is our contention that this framing of analyst work, by placing great emphasis on the cognitive capacities of SS analysts to produce accurate forecasts or price targets, focuses on substantive elements of expertise while ignoring relational elements of expertise. Moreover, that substantive expertise is often understood summarily in terms of numerical accuracy is indicative of a rather narrow understanding of substantive expertise itself. These two lacunae combined – the narrow specification of substantive expertise and the almost complete ignorance of relational expertise – contribute to a situation whereby we miss potentially important elements about how investment decisions are made. This not only leads to mischaracterizations of what analysts actually do but effectively limits our understanding of how markets work more broadly.

### *2.2 Alternative pathways to understanding analyst work*

Much more nuanced accounts of analyst work are offered by the relatively sparse sociological literature devoted to this group of financial actors. For example, work by both Beunza and Garud (2007) and Blomberg (2016) shows in some detail the ways in which securities' analysts defy the widely held belief that they use a single analytical and calculative framework. Beunza and Garud's (2007) classic piece examines how two different 'star' analysts arrived at radically different assessments of Amazon's future prospects. Beunza and Garud (2007) explain this divergence in terms of the differing interpretative frames that analysts employ. Blomberg (2016) develops this argument further by illustrating some of the heterogeneous approaches to analysis found among analysts, with some evincing a strong commitment to quantitative techniques and 'hard' numbers while others display a stronger preference for qualitative storytelling that draws more heavily upon 'soft' information (see also, Abhayawansa et al. 2015). Such heterogeneity in the application of substantive expertise does not sit comfortably next to large-scale studies which purport to describe analysts as a unified, coherent group of actors. Indeed, it remains unclear in what conditions certain types of substantive expertise, e.g., hard numbers rather than stories about strategy, are more valuable.

Additional sociological work has questioned the value attached to the summary measures found in SS analyst reports, and which most research in accounting appears comfortable to accept as the main role that analysts play in financial markets. Imam and Spence

(2016), for example, show that BS actors are more interested in the rich contextual information that SS analysts can provide rather than whether an earnings forecast is accurate or not. Similarly, Abhayawansa et al. (2015) claim that it is the ‘untold story’ that BS actors are interested in, rather than numbers produced by SS analysts.

Sociological work tends to view analysts in a different fashion, more as: “discourse makers who keep conversations going among participants by framing information in engaging ways” (Giorgi and Weber 2015: 357); as producers of discourse that are valued for the interpretations they provide or help to generate rather than for their stock recommendations (Giorgi and Weber 2015); as knowledge builders in addition to mere information intermediaries (Johansson 2007); as providers of interpretation as well as facts (Wansleben 2013). Overall, analysts clearly require more than just substantive expertise about companies and industries. SS analysts and their BS clients can be thought of as “sparring partners” (zu Knyphausen-Aufseß et al. 2011: 1170), with the latter relying on the former to build a portfolio of different perspectives (Giorgi and Weber 2015).

Indeed, a common refrain in sociological research on analysts is that stock recommendations are not regarded as particularly important and that analyst reports themselves appear to be subservient to other types of conversations that take place between the SS and the BS. For example, Wansleben (2013) suggests that reports are a means of communicating stories that, in turn, “facilitate analysts’ conversations with clients” (417). Similarly, Johansson (2007) points out that “information received through the written, publicly available, recommendations tends to be of basic value for clients, while verbal discussions of private nature tend to be of a value-added character” (38). Moreover, that these conversations are ‘flexible in character and adjusted to client needs’ is suggestive of the deployment of relational expertise or, what Johansson (2007) refers to as ‘relational capital’.

Such studies call into question the conceptualization of analysts – implicit in much economistic accounting research – which advances a view of actors who use a single calculative framework whose outputs become inputs for BS investment decision-making processes. In contrast, the sociologically-oriented literature indicates that different analysts use radically different interpretative and calculative frameworks to make sense of the same information set and, critically, that they regard these frameworks as part of their professional identity and the benefit they provide to clients.

Whilst this discussion of the literature implies that the concept of relational expertise would be vital for understanding SS analysts, little is known about how analysts cultivate relational expertise and, in particular, how relational and substantive expertise co-exist within the field of investment advice. Even those studies that do focus on the social capital that analysts accumulate in the course of their work fail to explain in detail what the successful accumulation of social capital is predicated upon (Imam and Spence 2016). Indeed, recent work in this area has called for future research to pay more attention to the 'action-nets' (Blomberg 2016: 291) within which analysts operate, in particular, the interactions of analysts with clients, traders, brokers, bankers, risk managers, etc. Johansson (2007), while drawing attention to the importance of relational capital, calls for more research exploring "what kind of values are added through the analysts' relational capital and how these values are added" (48). More generally, Wansleben (2013) notes that "the sociology of professions and experts has not been systematically related to the study of analysts" (426).

We respond to these calls by exploring the ways in which analysts employ both substantive and relational expertise in the work that they produce for BS clients. In particular, we build upon previous sociological work on analysts by examining the role that reports play in facilitating analysts' role as 'discourse makers'. Sociological research identifies the status of market actors as indicative of the underlying quality of products or services. Of particular relevance here is Podolny's work that considers an actor's social ties as mediating between status and quality (Podolny 1993, 2010). This insight, which positions relational expertise (expressed in the existence and strength of ties) and substantive expertise (signaled by status) as dynamically connected variables, is also echoed in empirical work on analysts. For example, previous work has alluded to the role that reports play in signaling quality and thus providing legitimacy to analysts (Giorgi and Weber 2015). Empirical evidence also indicates that reports facilitate verbal conversations with clients (Barker 1998; Wansleben 2013). Nonetheless, more work is needed to examine in detail the ways in which reports may serve these functions while also interrogating what BS actors themselves actually do with analyst reports, if anything. In shedding light on the actual functions that analyst reports serve we can conceptually go some way towards demonstrating the ways in which relational expertise shapes the effectiveness of technical competence. Both Barley (1996) and Sandefur (2015) allude to the co-constitutive nature of relational and substantive expertise in general, but Sandefur (2015) in particular recognizes that "future work should explore the interaction of distinct elements of professional expertise in a wider range of professional settings" (927). This gives rise to our first research question:

> RQ1: What functions do SS analyst reports fill and what do these functions tell us about the changing dynamics between substantive and relational expertise in the field of investment advice?

Exploring the interactions of analysts with other financial actors is important if we are to gain a better understanding of the roles that they play in financial markets. The field of investment advice has been disrupted in recent years by both regulation and technology. Regulatory changes, for example, have been introduced in an attempt to remedy conflicts of interest that may arise when SS analysts provide research for the firms they cover when their employers (i.e. investment banks) work as underwriters for those companies. It has been shown that SS analysts, instead of providing objective analysis, bias their research to gain investment banking fees (Lin and McNichols 1998; O'Brien et al. 2005). In a famous case from the early 2000s, a team lead by New York Attorney General Eliott Spitzer found private emails from Merrill Lynch internet analyst Henry Blodget relating to internet companies that – while assessed positively in his formal analysis – were privately referred to as 'a piece of crap' and 'a horrible investment'. Following the investigation, and as part of a settlement agreement in 2002, Henry Blodget and Jack Grubman, once with Salomon Smith Barney, received fines of $4m and $15m respectively. The Spitzer settlement was an important event that highlighted the conflicts of interest that permeated the field of investment advice and triggered a wider discussion about the role of SS analysts therein (see, for example, Boni and Womack 2002; Mehran and Stulz 2007). The resultant public debate prompted a number of reforms in the US that have had far reaching effects. The SEC introduced NYSE Rule 472 and NASD Rule 2711, requiring analysts to disclose any conflicts of interests in their reports and clearly explain the meaning of their ratings. The same year, the US Congress, in its Sarbanes-Oxley Act (Section 501), also recognized SS conflicts of interest as an important issue. In April 2003, the SEC released 'The Global Analyst Research Settlement', which required investments banks to separate their investment banking business from research divisions and to maintain operational and informational 'Chinese Walls' between the two areas of activity.[5]

In the UK, the government-commissioned Myners Report (2001) found evidence of short-termism and herding behavior in the fund management industry due to the vagueness about the timescales over which FMs' performance was measured and the 'peer group' benchmark system. This report also revealed that broker commissions paid by these FMs were not rendered transparent to their clients and recommended that dealing commissions paid by

[5] The settlement required 10 investment banks to pay nearly $1.5 billion of which $935 million in penalties and disgorgement, $460 million to fund independent research, and $85 million to fund investor education.

BS firms to SS firms should not be used to pay for SS research (Haig and Rees 2017). Based on this recommendation, in 2006, the Financial Service Authority (FSA) introduced 'use of dealing commission rules' which encouraged the use of Commission Sharing Arrangements (CSAs) and restricted non-execution commissions to research only. In a similar vein, the Markets in Financial Instruments Directive (MiFID), that separated research from execution commission, was introduced in Europe the following year. The accumulated effect of these regulatory initiatives has contributed to a significant decrease in funds flowing towards SS analysts. According to Frost Consulting data, global equity-research budgets dropped from $8 billion in 2007 to $4 billion in 2013 and were expected to drop further to just $3 billion by the end of 2017 (Patrick et al. 2015; The Economist 2014).

Another important role of SS analysts has historically been brokering corporate access – facilitating meetings between BS and senior corporate officers. This role was also restricted by regulation, leading to an expected drop in revenue of about £500m ($840m) and significant loss of SS analyst jobs (The Economist 2014). Recent reports suggest that jobs are still being shed in banks and brokerage houses (Wigglesworth 2017). Another consequence of these reforms is that the SS might have reduced its coverage or the quality of its research. Studies suggest that many SS analysts have been forced to explore job opportunities elsewhere (Boni and Womack 2002; Groysberg et al. 2008). Overall, this review of past SS analyst practices, the scandals that erupted as a result and the concomitant regulatory reforms highlight the accumulated causal factors that contributed to the emergence of the changed environment that we analyze in this paper. Although analysts now are grappling with regulatory pressures, those pressures themselves have arisen largely in response to what is perceived as problematic analyst behavior.

In addition to regulatory reforms, technological changes in financial markets have also had a significant impact upon financial markets in recent years (Preda 2017). The impact of these changes on SS analysts, and their practices has, as yet, been largely unexplored. Additionally, while for many years SS analysts have enjoyed high status and impressive salaries (Wansleben 2013), the field has witnessed the rise of in-house BS analysts over time (zu Knyphausen-Aufsess et al. 2011).

These regulatory and technological changes coincide with further pressure on FMs due to the shift of active investment funds to less expensive index-tracking, passive funds. According to Bloomberg, in the first half of 2017, almost $500 billion has flowed out of active into passive funds (Stein 2017) and the largest asset management firm BlackRock Inc. removed seven of their portfolio managers with almost $30 billion investment in favor of passive investing.

These changes effectively constitute existential threats which impact upon, we predict, the interaction between SS analysts and other actors in which the analysts' social skill emerges. According to Fligstein (1997), individuals exhibit social skill when they display an ability to read the current level of organization in a field and respond to it with realistic strategies that advance or maintain their own position therein. This gives rise to our second research question:

> RQ2: How have SS analysts repositioned themselves within the field of investment advice in response to the changes wrought by technology and regulation?

Recent research on financial professionals employing the notion of social skill has shown how the latter can be successfully deployed in order to cope with existential threats to their profession (Radcliffe et al, 2018). The recent history of SS analysts indicates that, partly due their own practices - which resulted in dramatic regulatory changes – and partly due to changing technology, the functional role of SS analyst was facing potential extinction. Yet, SS analysts still exist. Our second research question proposes the hypothesis that their current existence is related to their ability to recalibrate expertise in the field. Exploring the changing importance accorded to different types of expertise is important because expertise is linked closely to positional struggles within professional fields (Radcliffe et al. 2018). Paying attention to expertise can therefore reveal something of the roles that fluctuating status and reputation play in financial markets. In doing so, the present paper adds weight and substance to the view, currently under-represented in the accounting literature, that financial markets are dynamic, temporally contingent and socially constructed (see Chen et al. 2018) rather than mechanistic, atemporal or naturally occurring.

## 3. Methods

### *3.1 Data Collection*

A total of 57 interviews were conducted between October 2014 and March 2016, of which 42 with SS analysts (including 14 with Extel top rated analysts), and 15 with BS analysts and FMs. The majority of interviews (50) were conducted over the telephone or Skype, and seven interviews were conducted face-to-face at interviewees' offices. Because our interview subjects were based in different locales, we opted for using telephone or skype interviews as our primary data collection method. The literature indicates that while telephone interviews do not reveal nonverbal cues and the immediate context (McCoyd and Kerson 2006; Novick 2008), the quality of data collected using this method is similar to face-to-face interviews (Sturges and Hanrahan 2004; Sweet 2002). The sample size was allowed to be driven by the need to fully capture the depth and breadth of the phenomena. Once theoretical saturation was reached in the form of conceptual themes recurring with minimal variation, data collection ceased.

The interviewed SS analysts covered stocks representing a wide range of sectors (see Table 1). Whilst the sectors shown in Table 1 are those that are currently covered by the analysts it was revealed during the course of the interviews that many analysts had also covered other sectors in their previous roles. Experience gained in their previous roles covering these other industries was drawn upon in responding to interview questions.

Insert Table 1 about here

Forty-four research, brokerage, investment banking and investment management firms were represented in the sample. The majority of the firms are headquartered in the UK, US and Europe, and operate internationally. The SS analyst firms varied from small local brokerage houses employing less than ten analysts, to large international investment banks with more than 50 analysts working in their global network of offices. Similarly, the BS firms varied from small partnerships and hedge funds to global investment management corporations. Of the interviewed SS analysts, 12 analysts had 20 or more years of experience in SS research, 16 analysts had between 10 and 19 years of experience, and 14 analysts had between 3 and 9 years of experience. On average, SS analysts had 15 years of experience and covered 12 stocks. The BS analysts and FMs on average had 11 years of experience on the BS, where four had 20 or more years of experience, two had between 10 and 19 years of experience, and nine had between one and nine years of experience.

Our research instrument included two categories of questions – questions aimed at establishing background facts about the interviewees (e.g., personal and educational background, qualifications, employment history, current sector/stock/portfolio coverage), and questions that explored themes pertinent to our research questions. The questions included in the initial research instrument underwent some adaptation over the course of the first few interviews to reflect and incorporate themes and questions that were not originally envisaged but emerged through the course of the initial interviews. Two slightly modified versions of the research instrument were employed for the two groups of actors (i.e., SS analysts and BS/FMs), as certain questions would only be relevant to a given group of actors. The questions were divided into themes aimed at in-depth exploration of the following aspects: (a) the roles of SS analysts vs. BS analysts as perceived by each of these groups of actors; (b) the composition and nature of substantive and relational expertise of each group of actors; (c) what features of SS expertise and practice create value (how and why) for the BS; (d) the form, nature and substance of interactions between the SS and BS, and how their relationships develop and evolve over time; and (e) whom and/or what the actors of a given type (e.g., SS analysts) consider to be their key counterpart actor(s), parties or context, that influence their own practice and position in the field of investment advice (e.g., BS, company management, informational and regulatory environment).

*3.2 Data Analysis*

Data analysis was undertaken concurrently with data collection, enabling us to determine the extent of incremental insights generated by each interview. We used the early interviews to identify and establish interviewee-generated themes (Kuzel 1999; Lye et al. 2005) and subjected these to initial data analysis, following up with 24 further interviews with SS and BS participants. Our goal during the data analysis was to identify the factors and processes involved in actors' perceptions about the field and their place within it. We coded the interviews employing an emergent methodology with a dual focus on both the principal research questions and actor-presented themes in the data. Specifically, attention was paid to issues pertaining to forms of expertise, how expertise was deployed, how relevant forms of expertise were valued/devalued over time, and how relationships between actors in the field had evolved throughout the course of participants' careers.

Our research design was based on our awareness that the process we describe is embedded in a complex, historical narrative, where differing and potentially conflicting explanations were proffered. Hence, as emerging themes were identified by the research team as of interest, they would be explored further in future interviews (Abbott 1992; Glaser and Strauss 1967). Throughout the data analysis process, we compared our emerging findings with existing research on analysts in order to identify areas of both correspondence and difference. In particular, we highlighted findings that did not appear to fit with past scholarship for further investigation. This process was iterative throughout the research and ended when we believed we had generated a plausible and consistent fit between our research questions, data and theory.

## 4. Findings

### *4.1 Field dynamics: technology, regulation and the dislodging of established positions*

Both SS and BS participants share a broad consensus that the quality of SS research has significantly diminished in recent years. The explanations were multifarious, but many of the micro-level changes our interviewees described correspond with the macro-level trends depicted above in section 2. This perceived 'drop in quality' is inherently related to wider changes in the field of investment advice and illustrates the importance of applying a historical examination to financial fields. Notable in our findings are indications of the lasting effects of the dot.com crash and the revelations about analysts' collusion with companies, as the following BS actors indicated:

> You had a lot of the issues around the independence of research and analysts writing positive reports on companies that they thought were really crappy companies. More and more of them building in-house research capabilities because of the issues they have with the sell-side. (*BS 13*)

> but increasingly the buy side are also being forced to be much more transparent about when they pay broker's commissions, about what they're paying for. Are they paying for industry knowledge? For research? For trade execution?… What's happening therefore is that there's a lot of pressure on revenues on the … sell side. (*SS 34*)

Consequently, this move by the BS to internalize research capabilities, combined with the inability to conceal the cost of SS research in trading commissions brought about by regulation, contributed to shrinking the SS commission pool. In turn, this prompted many SS firms to replace expensive older analysts with younger alternatives or to request analysts to cover more stocks than previously. Other regulatory concerns have, we were told, rendered SS analysis "potentially dull" (*SS 33*) because "there's just so much research that's just generated out of complying with regulations" (*SS 40*).

In addition to the changing regulatory environment, our interviewees identified the strong impact of technological changes on the roles played by SS analysts. One of the areas where SS analysts claimed to add value in the past was their ability to quickly and thoroughly compile relevant information for investment decisions. This ability, which relied on allocating resources to laborious, time-consuming tasks, has become less sought after with the advent of information technology, as an indicative quote from the following FM shows:

> I'm modelling lots of companies, why can I do that? Because I can download all the history from Bloomberg when I have results, you know the following day I can copy across and all those results are on my model from Bloomberg. It's pretty easy for me now to get those numbers whereas even, not even 20 years ago you would have had to plug in all those numbers individually into your Excel sheet. (*BS 9*)

These functionalities of the database, now at the fingertips of the FM, make redundant the painstaking work of compiling sector-wide data. BS are finding that some of the services that they previously relied upon the SS to provide can easily be done on their own:

> If you were a company just think of the logistics, if you were a company trying to set up a roadshow in London […] 20 years ago you would have had to phone all your buy-side clients or fax them, so just setting up a meeting whereas now you basically send out one email to all your buy-side clients saying this company is going to be in town this week, you know, send me your availability[…] If you go back 20/30 years…the sell-side were distributors. So a company would put out a press release, it was by fax, they put one fax to their broker or to their several brokers who then faxed it to all the buy-side…So the

> sell-side had a very basic function in disseminating information reasonably quickly and efficiently. Of course, with the internet and email now that's completely defunct. Now we all get the results from the webcast at the same time in the morning, the sell side, if they're lucky, might get it 20 minutes earlier and then can publish one minute after it's been released. (*BS 9*)

The quote above indicates that SS expertise had a strong logistical dimension. That is, when phones and fax machines made up the common communicative infrastructure, SS expertise in relaying information from firms to investors relied upon multiple person-to-person communications and laborious coordination efforts aimed at securing meetings. A BS analyst summarized this change:

> This idea that the analyst was the priest who mediated between God, the company and the people, the fund managers and as in so many other areas of life, you know, that priestly function has been disintermediated out of the way because now the fund manager can go direct to the company through meetings, they can access the webcast directly. (*BS 11*)

Overall, regulatory and technological changes have contributed to a situation, which was reflected clearly in the interviews, where there is a glut of SS analysts in the market for investment advice. There was widespread consensus among both BS and SS interviewees that there were simply too many SS analysts out there that were not 'adding value', as the following indicative quote shows:

> I don't see the need for having 100 sell-side firms or however many there are that participate. I can't remember the number I saw in the Extel blurb when Extel came out the other day. It was just insane. The industry doesn't need that amount of people, and pensioners whose money this mainly is don't need to see that kind of value leaking out into the system. (*SS 39*)

Several SS and BS interviewees talked about the 'oversupply' of SS analysts in hard numerical terms. For example, one suggested, referring to a recent Extel survey, that "only 20% of the analysts are perceived as valuable by the fund manager and the buy-side" (*BS 14*). Others offered more subjective estimates, suggesting perhaps that "there should be 15 - 20 [analysts covering a large company] rather than 35" (*SS 40*) or that "many companies have 40 analysts where probably only ten would be enough" (*SS 34*)[6].

Conceptually speaking, prior to the advent of internet-related communication channels, SS analysts found themselves positioned in a key information brokerage role which necessitated the utilization of relational expertise, linking investors with their investment objects. This was combined with the deployment of substantive expertise, as interpretation of company results was perceived as a valuable activity. Moreover, the opacity in commission structure applied to SS analysts enabled their accesses to be hidden. With changes to information technology and increasingly stringent regulatory requirements, there is now a generalized perception that SS analyst work is less logistical than it used to be and, in some respects, of a more mundane quality than previously. These dual changes imply a devaluation of relational expertise in the first instance, and a diminution of substantive expertise in the second. Taken together, these constitute a serious disruption and threat to the existence of SS analysts in the field of investment advice. However, as will be shown below, SS analysts have advanced a number of mitigation strategies to maintain a role for themselves in light of changing rules of the game. Central to these strategies have been the recalibration of the SS analyst's portfolio of expertise.

### *4.2 Position-taking and the recalibration of expertise in the field of investment advice*

Conceptually, the changing role of the SS analyst can be illustrated by reference to dynamics that made conditions in the field more favourable to a 'challenger' who has disrupted the 'incumbent' (Fligstein and McAdam 2012) status of the SS. This led to a repositioning of SS

[6] The business intelligence provider Coalition, who also provides ranking of analysts, suggests that at the 12 biggest investment banks the number of analysts fell from more than 6,600 in 2012 to fewer than 6,000 in 2016 (also see Wigglesworth 2017). This is only a modest drop in analyst numbers (circa 10%) which, when combined with the quotes above, suggest that banks might not have downsized as much as they might have as a result of various field-level changes.

analysts. On the one hand, the SS analysts are now restricted, both formally and due to the establishment of norms, in their ability to communicate their knowledge to decision-makers. New regulations restrict their opportunities to generate revenues, and new technology undermines their ability to intermediate investors and companies. At the same time, BS analysts, who were less restricted by these regulations and were more affordable, rose to prominence. Thus, the SS analysts' relative position in the field of investment advice worsened. Economically, from the BS perspective, it was less desirable to employ a relatively expensive SS analyst to perform functions that could be performed more cheaply in-house. Nonetheless, these changes did not result in a complete demise of the SS analyst (although their numbers dwindled significantly), but instead in their repositioning in the field and a recalibration of their value-generating activities.

Our findings, however, indicate that the weakening relative position of the SS analysts as compilers of information and providers of access to corporate actors is also accompanied by a re-evaluation of their worth by the BS. Most indicative in our data were the repeated comments and statements from the BS about how SS analysts were a source of useful knowledge about the market that the typically more junior and less experienced BS analysts lacked. For example, interviewees repeatedly referred to the SS analysts' "market intelligence" (*BS 14*). 'Market intelligence' is regarded by the BS as a quality that SS analysts develop over time through their exposure to a wider variety of views than that garnered by the BS and through their access to different sources of information. In other words, SS analysts are still regarded as valuable due to different structures of social connections and differences in associated practices. In particular, when asked about the uses of SS 'market intelligence', our interviewees, both from BS and SS, explained that BS analysts and FMs do not have detailed knowledge of the positions held by their competitors or the rationales underpinning these positions. In contrast, experienced and clued-up SS analysts, those with 'market intelligence', are perceived to possess this knowledge and can employ it when developing interpretations. A good example can be seen in the following quote:

> A sell side analyst is going to talk to all the fund managers, all the buy side analysts, so if he is smart enough he is going to understand the way that the market is positioned on a name or on a sector. He's going to be able to say in fact the buy side has already built a position in his name, so there is no additional buyer, so if you're the last to buy the stock, you know that you take a risk. And that on the buy side you don't know, you don't see what the others are doing; you can have some anecdotal signals, but the conversation you can have … with a top ranked analyst and have access to all the fund managers. (*BS 14*)

A further illustration of this 'market intelligence' was proffered by a FM who commented that investors, who typically have a broad knowledge of the market, tend to lack expertise about specific industries or are not always fully aware of market dynamics. As a result, the BS need "to be guided on how to think" (*BS 15*) by SS analysts.

SS analysts' knowledge, as the example above indicates, is demonstrated through practices where the BS and SS analysts interact. A typical example is a FM (below) calling upon a SS analyst when trying to interpret market behavior, as part of forming an opinion about a particular investment:

> [if] company results is [sic] confirming your investment case, the stock is going up, it's getting less cheap and so forth then, then you don't really need to do anything. But if they're profit warned, if you have slight downgrades for whatever reason or the share price is starting to misbehave - meaning going in the direction that you don't think it should be going - then the need to engage [with SS analysts] and to understand where you've gone wrong or I've gone wrong increases. It required calling up a sell-side analyst to understand how, you know, after half an hour, three-quarters of an hour of answering all my questions, you know, I came to the conclusion where the value was. (*BS 8*)

This quote illustrates both the value for the FM of SS analysts' diverse knowledge base and the inherently interactive process of knowledge generation, honing and calibration. Notably, the FM does not call the SS analysts to hear about new ideas or hitherto unidentified investment opportunities. Instead, the long conversation ('after half an hour, three-quarters of an hour of answering all my questions') mentioned in the quote is a focused attempt to generate a complementary, or possibly alternative, explanation to the FM's original interpretation of the market.

A different FM emphasizes the co-constitutive nature of knowledge generation that takes place through interactions between the SS analyst and the FM:

> … I want somebody who really understands the industry, you know, you say, "what do you think this company is doing, how do you think they react to it" and they give you what you think is an informed view and one that makes sense and maybe you hadn't thought of. And are prepared to argue it with you and sort of test my ideas, I don't want somebody who just agrees with me, I want somebody to say, well, I think you're wrong, because of this, this and this. (*BS 9*)

An even more pointed view about the value created through a focused and intensive dialogue between the BS and SS analysts comes from a FM who claimed that

> it doesn't really matter if you're [the SS analyst is] right or wrong, it just matters if you're saying something that's interesting and different that makes people think. So that's certainly what I would look for [in sell-side analysts]. (*BS 13*)

Arguments positing the continued necessity and value of SS analysts evoke the relational dimensions of their expertise. The usefulness and thus value of SS analysts in the eyes of the BS, these arguments imply, stem not from the former's superior cognitive abilities, but from the different positions SS analysts tend to occupy in the social space, having better access to a variety of social networks and thus exposure to (or solicitation of) a wider variety of information and knowledge than is available to the BS.

This perceived persistent relevance to the BS notwithstanding, it was nonetheless readily admitted by the SS analysts that they needed to work much harder now to demonstrate their worth to the BS. Doing so requires new relational strategies on the part of SS analysts. Moreover, these relational strategies themselves are predicated upon different forms of substantive expertise. Essentially, the growing importance of BS analysts has changed the social and knowledge-exchange topology that the SS faces – instead of pitching their information and knowledge directly to the FM, the final investment decision-makers on the BS, SS analysts now operate within a more complex matrix of actors and practices. For example:

> Their internal [BS] analysts, of course, would pitch an idea to the FM [fund manager] and that internal analyst has probably had a dialogue with me [SS analyst] to share his ideas and I obviously share mine and he will come up with his own investment case. And if there's anything deeper that needs to be dealt with and the FM wants to have an external view or a more potentially in-depth view or industry view they would reach out and then we have a proper conference call. (*SS 33*)

This quote, indicative of many of the accounts our interviewees provided, illustrates the changed environment in which SS analysts operate. In this new environment, the knowledge and information from the SS analyst serves to confirm/contradict the BS's emerging viewpoint whilst in the past SS analysts' inputs were used by the BS for exploring the value proposition of stocks. That is, the SS analysts would be approached for their advice, only to the extent that their knowledge would shine new light on, or add a useful perspective to, an existing strategy that had been hatched and developed through discussions between the FMs and their BS analysts.

In summary, compared with the previous setting, the changed role of SS analysts vis-a-vis the inter-positioning of the BS analysts can be regarded as a discerning membrane that SS analysts now need to pass through before their insights might be incorporated into investment rationales. Whereas our interviewees described that, in the past, the critical relationship was between the SS analyst and the FM, the BS analyst now serves as a 'buffer' (Barley 1996) between the two actors. As a result, the SS needs to develop and perform effective practices through which they convince the BS analysts of the relevance of their research, so that they take the initiative to contact the SS analysts. This new positioning has an important effect on the shape and content of reports (of which more below) as SS analysts commented on the necessity of capturing the attention of BS analysts:

> you need a condensed, sharp to the point version. And that is a particular skill to condense the message into something that actually people can understand. I can have a 70 - 80 page report that then needs to be brought down to one page to actually be able to make it onto the attention of portfolio managers. … So from page three, four, five bullets max, right, and a chart maybe. And that's essentially boiling it down to why am I interested and what is specific about this company, why should I care and what is the up side of valuation like. (*SS 33*)

SS analyst research has been recalibrated in response to these new imperatives.

The increased competition in the field is also emphasized by the struggle of the analysts to create and maintain strong social ties with the BS. Many of our interviewees repeatedly emphasized the crucial importance of 'relationship management', aimed at developing, over years and decades, ties of trustworthiness between SS analysts and investors, motivated by the constant struggle to sell one's research. An indicative description of this is provided by a former SS analyst who later moved to the BS:

> You have to convince the fund manager that your product is very good; so you need to invest into meetings, into calls, into sending for free your research, and hoping that the guy is going to look at it and that your calls will be the right one, that your analyst will enter the ranking and then progressively you will fight for the market share (*BS 14*)

The practices through which such ties are developed and established, as indicated by our interviewees below, are based on verbal and written presentation skills:

> So you have to be very concise and you've got to have very strong presentation skills both written and verbal (*SS 22*)

In addition, persistence has now become a key feature of analyst work:

> If you want to try and establish a relationship with them you need to probably try, try, try and try again, by sending emails and leaving voicemails, and then one day you hope that the client will say, 'Okay, well that seems interesting,

> why don't you come and show me your report and present your ideas to me?" And the goal I guess is to try and make that happen as often as possible, and after a while, if the clients find that you get more interesting ideas more than average, then you will become one of the key contacts for the chosen space. (*SS 37*)

The centrality of such social practices, and the crucial importance of social ties between SS and BS actors, are accentuated by the importance of surveys in the investment advice world where BS actors vote for their preferred analysts and rank the performance of the analysts. Two such leading external surveys are *the Institutional Investor (II)* All-American Survey and the Extel Survey. The Extel Survey began in 1974 and, according to the Extel website, in 2017 covered 3,200 BS firms and over 1,100 of the world's largest quoted companies. According to *the Institutional Investor* website, in 2017, which was *II*'s 46th annual survey, their respondents managed an estimated $11.9 trillion in U.S. equities.[7] Analysts are effectively made or broken by these rankings. For example, one interviewee commented that in the new environment in which sell side analysts operate:

> A "winner takes all" model prevails. If you are the top ranked guy, you dominate and the others are not [sic] existing. (*BS 8*)

Furthermore, interviewees noted that developed social skills are as important as accurate predictions when it comes to performing well in the surveys, as is illustrated by the following former SS analyst:

> You can be a top ranked analyst even if you are wrong 50% of the time. […] identifying stories, marketing the stories very well and then finally being very, very service-oriented in the sense of, you know, when there comes a request you respond very quickly and willingly, etc, etc. That is the person who is scoring well internally and externally in polls […] (*BS 15*)

[7] Other key rankings available in the US are Thomson Reuter's StarMine (since 1998) and The Wall Street Journal's "Best on the Street" (since 1993). One key difference between *the Institutional Investor (II)* ranking and these two is that rankings in these two are based exclusively on investment value whereas *the Institutional Investor (II)* uses mixed evaluation methods. They send questionnaire to BS analysts and portfolio managers to evaluate various *attributes* (e.g. industry knowledge, and accessibility among others) of SS. See Emery and Li (2009) and Fang and Yasuda (2014) for evidence on the performance of star and non-star analysts.

Relatedly, interviewees suggested that social ties can explain discrepancies between quality of analysis and ranking results:

> You get people who were voted very well and you think, "Your research is crap." I'm putting it to an extreme but you know these people, these analysts at other companies, they're just good friends with clients and therefore they get voted. (*BS 12*)

The increased importance of the surveys for SS analysts and the role that social ties play in the dynamics around surveys are also indicated by BS interviewees who commented on receiving 'a lot of pleading emails' from SS analysts to vote for them while reminding them of the quality of the services provided (for example, interview with *BS 5*). This solicitation gives some sense of the personal and institutional economic stakes associated with obtaining a good position in the rankings. Thus, even though many analysts don't ultimately believe in the rankings, they nonetheless fight hard to ensure that they are well represented therein.

The findings above contribute to our understanding about the reasons behind the more pronounced differential power structure in the field of investment advice (the 'winner takes all model'), but also indicate that this field, like others, is characterized by co-operation as well as competition (Fligstein 2013). Indeed, the knowledge that SS analysts generate and the reputation they gain for it, should not be seen so much as the product of SS analysis in isolation, but as having been co-constructed with the BS, responding to the latter's needs and preferences and reciprocated via supportive votes. This knowledge creation is imbricated in career-spanning relationships between actors through which strong social ties are forged:

> It can only be done over time so you know it, the relationship you build over many years with your, with your client base so you know quite often you know a junior analyst on the sell-side will cut his teeth or her teeth speaking to the junior analyst and junior, junior FMs on the, on the buy-side and they built the relationship going for beers, going for dinner you know, you know get a relationship going and then hopefully they grow senior, more and more senior together so in ten years' time a sell-side person is you know a fairly senior sell-

> side analyst and a buy-side person is a fairly senior FM and you'll have hopefully a very strong relationship at that point. (*SS 29*)

This quote, which represents a widely-held view, emphasizes that a SS analyst becomes reputable and valued as they advance upwards in their career along with their clients. This also illustrates the historical-biographical and co-determinant nature of knowledge in the investment field. Developing recognized expertise in this field depends not only on being able to provide knowledgeable and relevant advice (substantive expertise), but on having the trust of relevant actors who would be willing to incorporate such advice into their investment decisions.

One illustration of this painstaking accumulation of social capital can be found in references to the 'apprenticeship' period that junior analysts need to undergo:

> …because some analysts don't mentor people and therefore the juniors don't progress. Others are very good at it. But I would say an absolute minimum of five years, maybe seven to complete the apprenticeship, because you've got to live through different cycles. Live through good times and bad times. (*SS 36*)

The often-repetitive nature of analyst work and the long hours that it entails are conducive to the development of a portfolio of expertise, which is partly cultivated prior to arriving in an analyst house, but is further and continually honed throughout the remainder of the analyst's career.[8] Moreover, that expertise is not obtained scholastically in a formal way via professional qualifications or academic degrees but is largely embodied over time situationally and contextually (Sandefur 2015), which is a strong indication of the importance of relational expertise in this domain.[9]

[8] Similar evidence is provided by Leins (2018) who shows how junior analysts need to adapt to the lifestyle of a financial analyst.

[9] Analysts in our sample come from a variety of socio-economic backgrounds, with no great prevalence of public or private schooling. Indeed, education appears to be valued for the generic rather than the specific skills that it cultivates. Very few of our participants, for example, had degrees in finance, economics or a cognate subject. Only a minority had professional designations such as Chartered Financial Analyst qualifications either. Indeed, of those with higher degrees such as MScs or PhDs, these were in non-cognate areas. In one firm, all of the

In the following section, we discuss the practices and modes of operation that have evolved as part of the attempted repositioning of SS analysts in the disrupted field. Struggling to demonstrate their worth, our findings show how SS analysts have honed their practices, many of which revolve around the shaping and usage of reports as a relational device.

*4.3. Earning the 'write to speak': Analyst reports as relational devices*

Our findings presented in this section indicate that analyst reports are at the centre of numerous practices, but that the roles the reports play are very different from those presupposed by mainstream research. Instead of being merely a platform for information and knowledge, reports are relational devices – they help to establish and maintain relations between SS analysts and other important actors in the field such as the companies covered in the reports and BS clients. It is through the establishment and maintenance of these relations that various types of analyst expertise are cultivated and demonstrated. Importantly, the effective performance of report-related practices is seen by the BS as a justification for seeking the advice of the relatively expensive SS analysts.

We follow the roles of the reports through different aspects of SS activity. For example, many SS analysts intimated that the act of writing reports constitutes one of the key practices through which they develop their skills and keep their substantive knowledge up to date:

> I think when you're new to a company or new to an industry you have to write that big piece of research to teach yourself basically, because if you don't do that work then you won't be as good. (*SS 32*)

> I think most people would agree that writing quarterly reviews are fairly low value added to anyone, but actually the process of going through the numbers, updating your numbers and writing them up so you understand them and can

founding partners had degrees in history.

> see what happened and what the implications are is actually a decent discipline. (*SS 39*)

These 'big pieces of research' help to develop the analyst's substantive expertise but also serve effectively as a calling card that the SS sends to the BS, whether in the case of a new analyst, or to signal interest in a company or an industry not covered previously by a seasoned analyst.

Interviewees indicated that analysts prepare long reports that they use in various ways to establish a knowledge-sharing connection with target companies. For example, one common strategy is to send target companies partial versions of their reports:

> Typically, an initiation [report] mostly you would send it to the company because you're writing so much on the company but you don't really know the company that well at that point, so it is best for the company to read it once themselves and take a look and to give you a lot of factual corrections if required, but you would take away anything to do with the recommendations, valuations and all that before you send it to the company. (*SS 32*)

The reports, here, are intended to operate as triggers for initiating or maintaining a dialogue between the company and the analyst. There are also indications that companies are keen to meet with analysts who begin to cover them, as they tend to see a benefit in such meetings (interview with *SS 29*)**.** As part of maintaining such connections, SS analysts often consult with companies shortly before publishing a report (interview with *SS 23*). Companies, on their part, contact analysts, following the publication of reports to express agreement or disagreement (interview with *SS 29*).

In addition, there were indications in the interviews that managers may change their business practices in reaction to negative coverage in analyst reports. Such dialogue, interviewees indicated, comprises also face-to-face meetings where issues are debated:

> [the SS analyst should] [b]e humble and listen to management but also have your own view. Not be afraid to criticize management when you talk to them in an open but respectful dialogue […] most management teams actually enjoy push back, right, when they say stuff and you sit down with them and you say,

> well, no, that makes no sense to me, this is what I think. I'm having that sort of dialogue. (*SS 33*)

That analysts have such robust conversations with target companies suggests that they effectively act as 'sparring partners' not just for the BS (zu Knyphausen-Aufseß et al. 2011) but for company management as well. Indeed, there is a logical sequence to events here, with robust conversations held with company management appearing to be solid preparation for similar conversations with the BS:

> It's much more of a thought process behind it which is of interest to them […] They will have their own price target methodology, they will have their own rating methodology, the first thing that typically a Portfolio Manager will do is look at your earnings forecast and say, "Are you above or below consensus and why?" And then he wants to dig into why, and the really important bit's the why. (*SS 34*)

Beyond illustrating the tone and tenor of conversations between the SS and the BS, this quote implies that the more important aspect of analyst work for the BS is an interrogation of the assumptions that have gone into reports. Indeed, in some cases the BS circumvents the reading of the report entirely and goes straight to the analyst for the more valuable back story:

> Most people will have questions on a report or they may say, "Look, I don't have time to read the report but why don't you give me a phone call and talk me through what's in it?" Sometimes a research report will trigger a different conversation, sometimes will say, "That's interesting, can you do it for a different company?" (*SS 30*)

Other respondents go further, suggesting that reports are, in general, never really read by the BS:

> The note just goes out to those people and if they are regularly receiving your stuff and then actually do read it – if you're lucky they read it. I know that there are many people at other companies and at our company who sit down – I see them every morning at our morning meeting – who sit down with an analyst's report and never read them. (*BS 12*)

This quote, which is representative of interviewees across both sides of the analyst spectrum, suggests that the reports are not consumed and used in the way in which the vast majority of literature in this area implies (e.g., Twedt and Rees 2012; Huang et al. 2014). That is not to say that reports are irrelevant to investment decision-making processes, rather that analyst reports are embedded within a set of practices that relies on both relational and substantive expertise and that involves sales teams, BS analysts and FMs. The reports can be viewed not as important necessarily in terms of the information that they communicate, but as devices that play a pivotal role in other, more value-relevant practices. For example:

> He [the fund manager] might have read the first five pages and the executive summary and looked at a few charts. But that is your calling card to then get a one-hour meeting with the guy to actually be capable of them presenting your ideas to him because… you're dealing with clients with limited bandwidth. (*SS 38*)

Reports, although they may contain relevant information, are accepted as relevant only when framed within a practice that is primarily verbal and interpersonal. These practices, which begin with verbal exchanges that may take place over the phone or face-to-face, are nevertheless conditioned upon the existence of a detailed written report:

> Legally I can't call up my client and say, "Look, I think this is a sell because of such-and-such-and." I have to first publish a note that says, "I think this is sell and these are the reasons," it then gets distributed across all of the coverage universe so everybody gets the information all at the same time, then I can make my calls. (*SS 4*)

Reports are seen as signaling the credibility of the analyst and the content he/she provides. In this respect, even if they are not read in detail or at all, the length of the report is still very important:

> [T]hey don't read […] more than the first two pages but of course if you send a two-page report, they'll assume there isn't any backing evidence there otherwise there would be more than the two-page report. (*SS 41*)

There is something rather perfunctory to the act of writing a report – it is a necessary hurdle that must be overcome before getting to the more valuable business of actually speaking to clients.

One function of reports, therefore, is to send signals to the BS regarding the SS analysts' substantive expertise. The actual content of reports might be read by the BS, and conversely, they might not. Crucial to this whole process is the conversation that the SS analyst seeks to have with the BS. At best, reports are read in the last instance, but only if having been passed through the filter of the verbal interaction with the analyst. Indeed, reports themselves can be misleading, and the BS is only too well aware of how institutional pressures influence analyst outputs:

> Analysts can say more in person than they can say in their reports. … I met an analyst recently from a very large investment bank who had a very negative view on China and his recommendations was sort of neutral, China. And I said to him, you know, everything you said sounds pretty negative, why aren't you very bearish on China. And he kind of said, well, obviously it's a bit tricky for my investment bank to be seen to be very, very negative on China for a lot of different reasons so that's a message that you're going to get more speaking to him in person than just by reading the research. (*BS 13*)

Reports are therefore not the main end of SS analyst work. Although important repositories of substantive expertise, they ultimately serve as a quasi-ritualistic but fully relational device that creates the possibility of more meaningful subsequent interactions between the SS and the BS. Otherwise put, reports are not an end in themselves, but a means to an end. In order to have the right to speak to the BS, SS analysts have to produce a legally sanctioned calling card. In this respect, they essentially 'write to speak' and it is through the more multifarious and complex act of speaking, rather than the more precise and target specifying approach to writing, that they might succeed in influencing investment decisions. The BS essentially want context rather than predictions from SS analysts (Imam and Spence 2016), and this is best achieved through verbal rather than textual interactions.

Conceptually, we see here the entanglement and co-constitution of both substantive and relational expertise: reports ascribe legitimacy to analysts by demonstrating their substantive expertise; in turn, the reports open up the possibility of a conversation between the SS and the BS which, if it takes place, offers the SS analyst the opportunity to demonstrate his or her (overwhelmingly *his*) substantive views on particular investment prospects. Therefore, rather than being static documents that act as targets or indicators of market sentiment at a particular point in time, analyst reports are at the center of a dynamic process of interaction between market participants that encourage BS participants to ultimately look beyond the report and pay attention to what the analyst him/herself has to say.

## 5. Discussion and Conclusions

We have shown in this paper, contra the assumptions inherent in the vast majority of empirical work in the area, that SS analyst work is characterized by significant and complex elements of relational expertise. While substantive, technocratic expertise is important in SS analyst activity, much of the value added to investment decision-making by SS analysts is based upon the ability to employ their relational expertise, directly as well as through reports, so that their substantive expertise can be expressed, effectively registered and ultimately remunerated. These interactions between substantive and relational expertise are expressed within a disrupted field, characterized by new inter-organizational and technological meeting points between the SS and the BS (i.e. more prominent BS analysts, regulatory constraints on communication, easier and cheaper data compilation capabilities). These field dynamics compel SS analysts to employ a number of practices aimed at increasing the likelihood that their knowledge - which itself is not purely substantive but is also predicated upon inter-institutional positioning - is given ample time and space to be heard and listened to by their counterparts on the BS. More generally, our findings suggest that the success of such an expert in the field of investment advice as the SS analyst cannot be explained merely by the acquisition of technical skill, but also by the execution of a high degree of social skill (Fligstein 2013). This is not something that extant literature has recognized hitherto.

Specifically, we have sought to answer two research questions. The first research question asked what functions analyst reports serve and what those functions might tell us about the changing nature of, and relations between, substantive and relational expertise in analyst work. We have illustrated, on the basis of interviews with both SS and BS participants, that analyst reports are indeed important but not for the reasons inferred by much extant literature. Analyst reports are important not for their content vis-à-vis investment prospects, but their power in signaling quality (Podolny 1993) and ascribing legitimacy onto their authors. It is this legitimacy that permits SS analysts to engage the BS in meaningful conversations about the latter's investment strategies and preconceptions about Firm X or Industry Y. In other words, the reports are important in facilitating a verbal or face-to-face interaction between the SS and the BS that will, potentially, have much more impact on investment decisions than the content in the report. This finding challenges received wisdom about the informational content of analyst reports and, by extension, the utility of obsessing over the accuracy of forecasts therein. It also points towards a situation where speech acts are more material than written accounts (Bento da Silva et al. 2017).

As regards the relative importance of substantive and relational expertise, the practices we identified, revolving around reports as relational devices, are suggestive of levels of complexity that were not envisaged at the outset of this study. We began this study motivated by a concern that relational expertise had been underplayed in extant research. The findings above do suggest that greater recognition of the importance of relational expertise to analyst work is now warranted, but we would not wish to suggest that the one is more valuable than the other, as Sandefur (2015) does in the context of lawyers. Rather, our findings and analysis indicate that the two are co-dependent and, as such, one cannot be properly understood by academics, or exercised by professionals, without the other. In essence, our findings indicate that the new regulatory and technological environment within which SS analysts operate begets practices whereby the generation and development of interpretations are co-generated by different actors. These practices, our findings show, are arenas wherein different types of expertise - relational and substantive - are both utilized and accumulated by actors.

As regards our second question concerning how SS analysts have attempted to reposition themselves in response to existential threats, we identified exogenous and endogenous changes in the form of regulatory initiatives, technological innovations and the entrance into the arena of a ‘challenger’ actor – the BS analyst. Each of these changes represented a threat to the previously well-positioned SS analyst, who has, *perforce,* had to recalibrate his/her portfolio of expertise and practices in order to remain relevant. In the past, analyst reports, which contained hard to collect information, might have been more readily consumed by the BS. Now, the SS analyst expends a lot of time and energy, and indeed uses the report itself, in an effort to pass through the new filter of the BS analyst before eventually reaching key decision-makers in BS firms. This effort has also been encumbered by technology having rendered his/her previous logistical advantages largely obsolete. SS analysts have therefore been struggling to reposition themselves in the field of investment advice, eclipsing their previous functions as suppliers and distributors of essential information by performing a more contingent role of trusted *consiglieri* - advisors who have access to privileged information and use it to co-construct interpretative knowledge along with actors on the BS. Previous research has shown how financial professionals can successfully employ social skill in order to transform existential threats into opportunities (Radcliffe et al. 2018). However, given the nature of changes in the field of investment advice that have disrupted established positions in recent years, the *consigliere* role coveted by SS analysts has effectively been a mitigation strategy that has provided economic and inter-organizational justification, perhaps temporarily, for the continued existence of SS analysts. That no shortage of social skill has been deployed in what is effectively a *mitigation* strategy permits us to offer a rejoinder to previous studies looking at professional groups which suggest that social skill is a means via which said groups can *advance* their position in the social space (Radcliffe et al. 2018; Suddaby and Viale 2011). We show here that professionals are not always the 'Lords of the Dance' that Scott (2008) suggests so much as they are constrained participants therein.

This study has implications for future research into SS analysts specifically, and for research into financial intermediaries more broadly. Our findings suggest that scholarly research in this area has been overwhelmingly focused on the content of analyst reports, whereas effort might more usefully be spent exploring the interactions between the SS and the BS that analyst reports make possible. Doing so would certainly offer more prospects for enhancing our understanding of what analysts actually do and why their services remain valued by BS actors. Of course, that this interaction is one that eludes easy empirical analysis – particularly the analysis of a quantitative variety – explains much of why it has been almost completely neglected by academic research. Nevertheless, being serious about understanding investment decision-making involves following where the action actually is (Preda 2017) rather than on simply looking where one's flashlight happens to be pointing. That said, this study cannot claim to have exhaustively mapped all relevant relations in the field of investment advice, focusing more parsimoniously on the dyadic relations between the SS and the BS. Future research could look at differences between SS actors in the way that they interact with the BS, extending existing work by Beunza and Garud (2007) and Blomberg (2016) who point out that SS analysts are not a unified group. Additionally, future studies could productively shed further light on the networks of social relations within which both SS and BS actors are embedded, looking notably at the ways in which these actors interact with company management (Barker et al. 2012; Hendry et al. 2006), brokers and sales teams in investment banks in addition to other players in the 'market for information' (Barker 1998; Imam et al. 2008). It is in these relationships that conflicts of interest have historically been identified and future studies could explore the prevalence or otherwise of said conflicts following the various field level changes that we have described here. Finally, this study engaged analysts over the period 2014-2016. Since then, new MiFID II regulations have come into force which will force BS to pay for research directly rather than through "soft dollar" trading commissions (Armstrong 2018). This new funding arrangement constitutes another existential threat for analysts, one which may prove to be too fundamental to mitigate against with repositioning strategies.

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*Table 1: Details of Interviewees*

Panel A - Sell-side (SS) analysts

| Sell-side analysts | Sectors covered | No of stocks covered | Experience on the sell-side (years) | Highest degree and qualifications | Research department size † | Firm's operations and type |
|---|---|---|---|---|---|---|
| *SS 1* | Healthcare and biotechnology | 12 | 2.5 | MSc | Large | International pure research firm |
| *SS 2* | Banks and financials | 13 | 6 | MSc | Medium | International brokerage firm |
| *SS 3* | Events analyst (IPO) | variable | 28 | MSc | Large | International investment bank |
| *SS 4* | Mining and metals | 14 | 21 | MSc | Medium | International investment bank |
| *SS 5* | Banks | 9 | 15 | BSc | Medium | International investment bank |
| *SS 6* | Mining and metals | 15 | 19 | MSc; CEng | Medium | UK investment bank |
| *SS 7* | Electronics, wireless telecoms and hardware | 15 | 10 | PhD | Medium | UK investment bank |
| *SS 8* | Mining and metals | 20 | 26 | BSc; CEng | Small | UK brokerage firm |
| *SS 9* | Insurance | 13 | 5 | MSc | Medium | International investment bank |
| *SS 10* | Financials | 5 | 17 | MA | Medium | UK brokerage firm |
| *SS 11* | Healthcare | 5 | 13 | PhD; CFA | Medium | UK pure research firm |
| *SS 12* | Food and personal care | 10 | 3 | MBA | Large | International investment bank |
| *SS 13* | Transportation, leisure entertainment, infrastructure | 13 | 10 | BSc | Large | International investment bank |
| *SS 14* | Financials | 40 | 16 | BSc; CFA | Medium | International brokerage firm |
| *SS 15* | Mining | 16 | 3 | PhD | Small | UK investment bank |
| *SS 16* | Oil and Gas | 15 | 9 | MBA | Large | International investment bank |
| *SS 17* | Media | 25 | 30 | MA | Large | International investment bank |
| *SS 18* | Food, consumer staples, paper & forest products | 6 | 8 | BSc | Large | International investment bank |
| *SS 19* | Non-sector thematic coverage | variable | 4 | MSc | Medium | International brokerage firm |
| *SS 21*[a] | Capital goods and industrials | 6 | 18 | MBA | Large | International investment bank |
| *SS 20* | Insurance | 8 | 15 | MSc; FIA | Medium | International brokerage firm |
| *SS 22* | Real estate | 9 | 6 | MSc | Large | International investment bank |
| *SS 23* | Oil and Gas | 20 | 6 | BA | Medium | International brokerage firm |

| | | | | | | |
|---|---|---|---|---|---|---|
| *SS 24* [a] | Multiple sectors | variable | 16 | MSc; CFA | Small | UK brokerage firm |
| *SS 25* [a] | Banks and financials | 12 | 22 | BA; FSI | Medium | UK investment bank |
| *SS 26* [a] | Utilities and power | 15 | 23 | MPhil | Large | International investment bank |
| *SS 27* | Utilities and infrastructure | 15 | 11 | MSc; CFA; FRM | Large | International rating agency |
| *SS 28* | Airlines, food retail | 20 | 13 | MSc; CFA | Large | International rating agency |
| *SS 29* * | Utilities, telecoms | 5 | 17 | BA | Large | International investment bank |
| *SS 30* * | Financials | 8 | 21 | MA | Medium | International brokerage firm |
| *SS 31* * | Automotive | 9 | 15 | MSc | Large | International brokerage firm |
| *SS 32* * | Technology hardware, semiconductors | 8 | 18 | MBA; CFA | Medium | UK investment bank |
| *SS 33* * | Packaging and paper | 15 | 22 | MSc | Large | International investment bank |
| *SS 34* * | Beverages | 10 | 10 | MBA | Large | International pure research firm |
| *SS 35* * | Insurance and financials | 7 | 33 | BA | Medium | International brokerage firm |
| *SS 36* * | Retail | 6 | 25 | BA | Large | International investment bank |
| *SS 37* * | Banks | 8 | 20 | BA | Large | International investment bank |
| *SS 38* * | Aerospace and Defence | 8 | 17 | BSc | Large | International investment bank |
| *SS 39* * | Oil and Gas | 8 | 17 | BSc; CA; CFA | Large | International investment bank |
| *SS 40* [a] * | Healthcare and biotechnology | 9 | 18 | MSc | Large | International pure research firm |
| *SS 41* [a] * | Consumer goods (tobacco) | 6 | 21 | BSc; IIMR | Medium | UK investment bank |
| *SS 42* [a] * | Non-sector thematic coverage | variable | 7 | BA | Medium | International brokerage firm |

Panel B- Buy-side analysts and fund managers (BS)

| Buy-side analysts/fund managers | Investment style/coverage | Experience on the buy-side (years) | Highest degree and qualifications |
|---|---|---|---|
| *BS 1* | Algorithmic/systematic trading | 13 | PhD |
| *BS 2* | Algorithmic/systematic trading | 7 | BA |
| *BS 3* | Global funds | 26 | PhD; CFA |
| *BS 4* | Emerging market funds | 5 | BA |
| *BS 5* | Global small cap | 31 | MBA |
| *BS 6* | Global, various | 18 | BSc |
| *BS 7* | Global and European funds | 20 | MSc; CFA |
| *BS 8* | European small cap; value | 20 | PhD |
| *BS 9* | Global; growth | 8 | MBA |
| *BS 10* [b] | European hedge fund | 7 | BA; CA |

| | | | |
|---|---|---|---|
| *BS 11* [b] | European hedge fund | 8 | BA; CA |
| *BS 12* [b] | Global; value | 2 | BSc; CFA |
| *BS 13* [b *] | Emerging market equity hedge fund | 5 | MBA |
| B14 [b *] | North America hedge fund | 1 | MSc |
| B15 [b *] | North America & Europe hedge fund | 2 | PhD |

Notes: **[a]** denotes SS analysts who previously worked as BS analysts or FMs. **[b]** denotes BS analysts and FMs who previously worked as SS analysts. [*] denotes individuals who were ranked as top SS analysts by Extel surveys. [†] The research department size is defined based on the number of SS analysts employed in the firm as follows: 'Small', if the firm employs less than 10 SS analysts; 'Medium', if the firm employs between 10 to 50 analysts; and 'Large' if the firm employs over 50 analysts.