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The Equity Analyst Rating Decision: A Strong Structuration Analysis

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September, 2018

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THESIS SUMMARY

THE EQUITY ANALYST RATING DECISION: A STRONG STRUCTURATION ANALYSIS

Kenneth Lee, Aston University, Doctor of Business Administration, 2018

Sell-side analysts represent something of an enigma; the literature suggests they are optimistic and conflicted in their stock recommendations, yet these same stock recommendations impact share prices and so are clearly important for capital markets. To unlock and explore this conundrum, this study conceptualises stock recommendation decisions as primarily social in nature. Consequently, this situates the research outside of the predominantly neo-classical economic model reflected in the mainstream analyst literature.

Giving voice to the sell-side analyst participants was central to the study. It explored their experiences of making decisions in the midst of a complex, changing social environment. Based on a field study, the empirical evidence was collected from focus groups and semi-structured interviews with sell-side analysts. Semi-structured interviews were extended into the analysts' network to include internal clients, external investment managers and corporate officials. Strong structuration theory was drawn upon extensively through every stage of the research as a revealing lens to sensitise the researcher to the structural and agential aspects of analyst practices, with a specific focus on rating decisions.

The findings suggest that regulatory tightening over the last decade has created an independent causal external structure that materially constrains and transforms the practices of sell-side analysts. Power dynamics, the levying of sanctions, a diverse analyst habitus and the exercise of resistance all remain integral to understanding company-analyst relations and action. Fieldwork evidence reveals that the sales force, largely ignored in the mainstream literature, represents a powerful agent cluster in close time-space proximity to analysts. By viewing the conduct of analysts as the outcome of cycles of structuration, further light can be shed on the low level of sell recommendations in the market, the use of calculative routines to legitimise ratings and the capitulation point, whereby an analyst abandons a poorly performing stock call.

Keywords/Phrases: *sell-side analysts; strong structuration theory; analyst stock recommendations; qualitative inquiry; social theory*

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During my doctorate studies, I switched careers from banking to academia, and I wish to acknowledge those who helped me on that journey. I have found the academic community very supportive with many people happy to share ideas, offer invitations to specialist theory conferences or simply give their time to discussion and debate. This has been both welcoming and inspiring, and for this I express my sincere appreciation. Lastly, I wish to thank Professor Ken D'Silva for all his time and guidance over many years, in particular his advice to do a doctorate!

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Over the years working on the doctorate, I sadly lost two dear friends. Mathias Jost was an inspirational colleague whom I met in South Africa whilst working for Barclays, and Michael Bent, a very close friend from Ireland since my early years working in Dublin. I have a picture of them both in my study which reminded me, even as I toiled away, to make the most of every opportunity. I will never forget them.

As a mature student undertaking such a large task, it is inevitable that sacrifices have to be made at home. The principal sacrifice is time. In particular, as a father and husband, the sacrifice has been time away from my children, Jake, Ewan, Nathan and Annabel and my dear wife, Rachel. It was often impossible to find time for family activities and I want to thank you all for your patience and encouragement. The fact that you have now all heard of structuration theory will no doubt put you in good stead for the future! I promise a great celebration when all is done and that we will get our weekends back!

I dedicate this thesis to my mother, Veronica. She passed away many years ago and so never got to see nor, more importantly, enjoy, the achievements of her children. She is with me in spirit and I know how profoundly happy she would be to see me complete this work.

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CHAPTER 1.
INTRODUCTION AND OVERVIEW

1.1 INTRODUCTION AND OVERVIEW

“In the field of investment advice, sell-side analysts occupy centre court”.

(Abhayawansa, Aleksanyan and Cuganesan, 2018, p.951)

This opening chapter introduces the field of analyst research and situates this thesis in the sociology of finance literature, theoretically informed by strong structuration theory. After this opening contextualisation, the subsequent sections provide an overview of the analyst literature and the theoretical framework. The remaining sections cover the research questions, a summary of the research design, contributions and, finally, an outline of the overall chapter structure of the thesis.

Equity sell-side analysts¹ occupy a pivotal and highly influential position in contemporary capital markets, providing investment research services to a diverse range of market participants (Abhayawansa et al, 2018; Bradley, Gokkaya and Liu, 2017; Brown et al, 2015). Such services encompass, amongst other things, information filtering, earnings forecasting and stock rating² (Leins, 2018; Groysberg and Healy, 2013). Despite not being directly involved in investing or trading, understanding their work provides important insights into “the determinants of value in the capital markets” (Beunza and Garud, 2007 p.13). And yet, there is substantial evidence that analysts’ outputs are overly optimistic, that investment firms routinely ignore their advice and that they are exposed to a multitude of conflicts of interest (for example, Chen, Danbolt and Holland, 2018; Green, Markov and Subasi, 2014; Cowen, Groysberg and Healy 2011; Cliff 2007). This study seeks to contribute to understanding why, despite the alleged deficiencies above, the investment community pays over \$1.3bn for their services in Europe (Greenwich, 2017). In attempting to reconcile this incongruity, the focal point of this study is on analyst stock rating practices observed through a social theory lens.

The mainstream analyst literature is predominantly positivist, quantitative and largely characterised by a focus on the numerical outputs they produce, such as earnings forecasts. The perspective adopted tends to be based on the fundamental assumptions of neo-classical economics with the efficient market hypothesis as the central framework. In this thesis, the analysis is reframed through the adoption of an interpretive approach. The research combines social theory and empirical investigation, underpinned by a social constructionism philosophy, with the objective of better understanding the lived experiences of analysts. This position enables an exploration of the complex suite of interrelationships that can permeate analyst

¹ Hereafter ‘equity sell-side analysts’ will simply be referred to as ‘analysts’ to aid the flow of the narrative. Other analysts will be given their specific title (for example ‘buy-side analysts’).

² The terms ‘stock rating’ and ‘stock recommendation’ are used interchangeably throughout this thesis.

practices and decision making. It ascribes the outcomes of analysts' work to the messy process of "interaction, negotiation, consensus and dissent" (Harris et al, 2016, p.1196) rather than to rational economic deliberation alone. The restriction, in the mainstream literature, to purely quantitative measures, only provides a partial understanding of analyst conduct. Indeed, Bradshaw (2009) describes how future research on analysts needs to infiltrate the 'black-box' of their processing activities to reveal more about analyst practices.

Recent works by, among others, Imam and Spence (2016) and Chen et al (2018) assert that, when studying the economic activities of analysts, the social context is of critical importance. This leads to a much smaller but highly relevant body of work on analysts situated in the sociology of finance literature. This literature goes beyond the disciplines of economics or finance and examines the social and cultural contexts within which financial systems operate (Knorr-Cetina and Preda, 2012). It exploits theories from sociology and elsewhere to develop deeper insights into the workings of capital markets. It is here that we find explicit support for more novel approaches to the study of analysts:

"Future research on both analysts and financial intermediaries more generally would do well to...look at how people actually behave and interact with each other in practice rather than inferring behaviour and interaction from databases or analyst reports."

Imam and Spence (2016, p.243)

This research study was operationalised as a comprehensive focus group and interview-based field study. The participants were experienced professional analysts and other stakeholders with the potential to contribute rich evidence of analysts' work. Particular attention was paid to the recruitment of participants who could help explore the networks across the field and to examine the role structures and agency play in analyst practices.

Two key components of the study are addressed in this chapter. The first is an overview of the work of analysts, the nature of the mainstream literature and where this study is situated. The second component of this chapter outlines the genre of theory adopted, and the consequent research questions and design.

1.2 THE CONTEXTUAL NATURE OF ANALYST WORK

Rather confusingly, the term 'analyst' encapsulates a diverse range of professionals working in financial institutions for example, investment banks, investment management firms, independent specialist research houses and hedge funds. The most important categorisation of analysts is between those that specialise in one of the major asset classes. So there are equity analysts, debt analysts and foreign currency analysts amongst others. A further sub-

division exists between those analysts concentrating on the entire market for a region (strategy analysts) and those that cover a specific list of companies in a particular industry (stock-covering analysts). Finally, there are analysts who produce research and advice for investment management firms (sell-side analysts) and those that work at these investment firms (buy-side analysts). In this thesis, the term 'analyst' is employed in a precise way. The focus is on sell-side analysts working in equity markets who cover stocks within a particular industry. This 'industry specialisation' is a key feature of most equity analysts (Tan, 2014). Although this study focuses on sell-side analysts, their relationships with other actors in the field, such as the buy-side analysts mentioned above, is an important feature of their world and one of central interest in this study.

Equity sell-side analysts predominantly work in investment banks (Cascino et al, 2014) although a significant minority work in independent research houses. Over time the number of sell-side analysts employed has fallen, however, based on 2016 data (Figure 1.1 below), there remains close to 6,000 across the largest banks alone.

FIGURE 1.1. SELL-SIDE ANALYST HEADCOUNT³



There has been long-standing support in the literature for researching sell-side analysts stretching over many decades (Chen et al, 2018). They are widely accepted to be the primary users of financial information (for example, Schipper, 1991; Hirst & Hopkins, 1998; Hopkins,

³ Reported in Financial Times, 7th February, 2017

1996). Brown et al (2015, p.2) view sell-side analysts as being of “significant interest to academic researchers because of their prominent role in analysing, interpreting and disseminating information”. They represent a central feature of financial markets and their activities are “important and enduring” (Lo, 2012, p.642). It is, therefore, no surprise that their activities and decisions are of ongoing interest to a number of parties: investors who use their reports and decisions to underpin their own work; managers of research departments in establishing internal controls and procedures; regulatory bodies who develop relevant financial market policy such as the Financial Conduct Authority (FCA), European Union (EU) and the Securities and Exchange Commission (SEC).

Analysts undertake various roles including acting as information intermediaries between corporates and investors (Chen et al, 2018). Arguably, their most high-profile activities are the production of earnings forecasts and stock recommendations. Given the wide variety of activities analysts become involved in, there is no ‘typical’ day. However, to provide some tangible context, Figure 1.2 provides a ‘representative’ day for an analyst who is publishing a report on a company they cover in Europe. This representation has been loosely adapted from the work of Groysberg and Healy (2013), which was drafted with US analysts in mind.

FIGURE 1.2. A TYPICAL DAY FOR A SELL-SIDE ANALYST⁴

The analyst’s day starts early, arriving at the office between 06.30-07.00. On the journey into work, the analyst would be expected to review the overnight news. In addition to broader news flow, analysts would also check specialist data sources for their particular industry specialism for price relevant developments. On a day when an analyst has published a new report, it will have been released overnight and will already have landed in the inboxes of clients. The analyst will have prepared a simple and succinct summary statement about the report in advance.

On arrival, unless there are some very early morning client enquiries, the first formal business of the day is the morning meeting. Such meetings take place at virtually all financial institutions, but they take on elevated importance for analysts and salespeople on the sell-side. In Europe, these meetings happen well before the market opens at 8 am (GMT⁵), so typically at 07.10-07.20 and last for up to 40 minutes. They are comprised of a series of speakers (normally analysts) making highly summarised contributions about reports that have been published. They are normally held on the trading floor or nearby to

⁴ Adapted from Groysberg and Healy, (2013, p.21)

⁵ As equity markets outside of the UK open at 9am (CET), the morning meeting takes place later across these time zones.

this. The sales force has the opportunity to question the analyst on their report and follow up with further queries as needed.

After the morning meeting the analyst returns to the research floor. In most cases the analyst will prioritise placing a call to the company addressed in the report to provide them with a 'heads-up' on the research published. Note that regulation precludes any pre-publication 'heads-up'. After this, the analyst will return to the research department and is expected to reach out to all major clients of the firm. Some clients will have a predictable interest in the report, for example those with the stock in their portfolio, while others may have little interest. Clients may want to meet the analyst face-to-face to discuss the report, and through a combination of salespeople and the analyst themselves, a series of meetings will be set up to facilitate this. If clients are overseas, then specific trips will be organised over the forthcoming weeks and months⁶.

The sales force will also be making client calls. The extent of this calling effort will depend on how committed they are to the particular report. A research report with a clear message, original analysis and an active stock call is likely to garner more support than a product with no clear buy/sell recommendation or which is lacking in originality.

After the publication of the report, feedback will be received from clients and salespeople and this will be used as an initial judgement about the strength of the research. This will impact upon how the analyst will market the report further. A strong initial reaction will likely provide momentum and the analyst would start to plan follow up reports addressing specific points in the research. A muted reaction might mean the report makes little impact.

The rest of the day would be spent planning future research reports, returning incoming calls from clients, responding to emails and Bloomberg chat messages. An important part of the analyst role is as an information intermediary, filtering information to discern what is important. Therefore, if there is news flow relevant to the sector, this may also interrupt the day and, if urgent, require action. Drafting a note to express an opinion on the news flow is increasingly common given stricter rules regarding the dissemination of analyst opinion. The day draws to a close anytime from 18.30 onwards but the analyst is expected to be contactable in case there are relevant developments, especially in markets overseas.

⁶ Although it varies widely by sector, analysts spend approximately thirty percent of their time out of the office. This would include visiting clients locally and abroad as well as attending corporate events and industry conferences (Groysberg and Healy, 2013, p.22)

1.2.1 The stock rating decision

This study focuses on the stock recommendation, or rating, decision. The provenance of these decisions is in the information intermediary role referred to above. Analysts expend significant effort gathering information from a number of sources about the equities in their coverage universe. They then undergo an evaluative process “to form their beliefs about the intrinsic stock values relative to their current market prices, and finally rate the investment potential of each stock” (Jegadeesh, Kim, Krische and Lee, 2004, p.1084). In formal terms, this rating process results in a stock recommendation. The rating decision is one of the most prominent decisions an analyst makes and attracts significant client and corporate attention as well as media scrutiny. It also affords a unique opportunity to study analyst judgment given that it represents the culmination of their analytical and valuation efforts (Jagedeesh et al, 2004).

1.3 THE ANALYST LITERATURE

Examining the work of analysts has proven to be fertile ground for researchers with a significant literature spanning many hundreds of papers over decades. The literature can be described as predominantly positivist, quantitative and US orientated, as explored further in Chapter 2. It embraces the assumptions and models of neo-classical economics including the unbounded rationality of economic actors and an overarching belief in the efficient market hypothesis (Leins, 2018). Consequently, within this body of literature, share price movements are typically used as the determinant of ‘impact’ given the assumption that they impound all, or almost all, information instantly. For example, consistent with this ideology, if an analyst made a recommendation to buy a stock, then the efficacy of this decision would depend on whether the shares in that stock moved up in price (success) or prices fell (failure).

From this extensive body of work, the focus for this thesis is on the stock recommendation literature. This in itself remains a large area of knowledge, with hundreds of papers. It can be sub-divided into four identifiable streams. The first stream examines the importance of the rating decision, both to the analyst concerned and to other stakeholders. The evidence here is mixed. Some argue that the rating decision is the ultimate objective of an analyst’s work (for example, Kecske, Michaely and Womack, 2017) and others purport that it is industry expertise and management access that are the most important analyst services (Brown et al, 2016). The second stream addresses the share price impact of recommendations. The seminal paper in the stock recommendation literature is by Womack (1996), who found that stock price reactions to recommendation changes were significant. These stock price impacts did not necessarily conform to a pattern of short-term reversal. Instead they exhibit what is referred to as a *drift*. For example, a drift for a sell (buy) recommendation would be an ongoing fall

(rise) in the share price after the initial recommendation is published. Downgrades are followed by negative returns and upgrades by positive returns.

The third stream examines the processing activities of analysts in an attempt to penetrate the 'black-box' of their thinking (Bradshaw, 2009). An example of this type of research is Imam, Chan and Shah (2013) who explored what valuation models are used and found an increased use of more sophisticated multi-stage discounted cash flow models.

The final stream of research relates to conflicts of interest and biases which can surround analysts. There is robust evidence of over-optimism amongst analysts and interference from the banking sector. The work of Barber, Lehavy and Trueman (2007) is representative of this research. They found that independent house analyst buy ratings outperformed those analysts employed within investment banking. In a reaction to these perceived biases, there have been, and continue to be, a number of regulatory initiatives. There is evidence to support these regulatory responses. For example, Wu, Wilson and Wu (2017) found that their measure of bias fell dramatically for those US analysts employed by investment banks involved in M&A post regulation.

As mentioned previously, there is a small but important sociological literature on the work of analysts. Wansleben (2012, p.251) identifies two major strands within this body of work. The first perceives analysts as agents of institutions and organisations, occupying multifaceted roles. In these positions, they act as intermediaries whilst at the same time being immersed in unavoidable conflicts of interest. Metaphors can further such conceptualisations, and this literature has embraced analysts as imitators of their peers and as critics such that, "like film reviewers, food experts or wine connoisseurs, analysts bring a social dimension back into decision making" (Beunza and Gerund, 2007, p.14).

A second strand focuses on analysts' practices and how they draw on calculative frames (Beunza and Gerund, 2007). This would include exploring situations of conflicts of interest, herding and over/under reaction to news flow. Wansleben (2012, p.264) commented, with some understatement, that the sociological literature so far 'had hardly exhausted' the potential of what could be done. In fact, there have only been a very small number of studies embracing social theory specifically addressing sell-side analysts. Fogarty and Rogers (2005) adopted an institutional theory perspective in their content analysis of analysts' reports finding, amongst other matters, evidence of a pro-management tendency. Imam and Spence (2016), using pre-crisis interview data, pointed to the importance of social capital in the analyst field, in contrast to the hegemony given to technical capital in the mainstream literature. Tan (2014) looked at how analysts had developed a domain of expertise on corporate governance. His work described in detail how this expertise was gradually constructed over time as they

acquired a leading role in governance and related research. In recent, but as yet unpublished work, Abhayawansa et al (2017) adopt an approach that interprets sell-side analyst work as a political and positional struggle, with interactions with other actors being central to how analysts add value. In recently published work, Chen et al (2018) use a Bourdesian framework to develop an analyst intermediation model which reflects the important information filtering task performed by sell-side analysts.

1.4 THE THEORETICAL CONTEXT

The overarching theory used for the study is based on strong structuration theory (Stones, 2005). This is a development of the well-known theory of structuration developed by Anthony Giddens over thirty years ago (Giddens, 1984). Structuration theory holds that there is an inherent interdependency between structures (rules and resources drawn upon by agents) and human agency or action (essentially 'what people do'). Human action is made possible by social structures, but such action, in turn, sustains or alters the social structure itself, such that structure and agency are 'mutually constitutive' (Coad, Jack and Kholief, 2015, p.156), forming a duality. Stones (2005) published one of the most important developments of structuration theory since Giddens himself 'turned his hand to other things' (Stones 2005, p.2). Now widely called strong structuration theory, it moves away from the relatively abstract ontology in which Giddens was interested and encourages researchers to explore empirical case studies of particular agents and structures arguing that, "the full potential of Structuration Theory cannot be fulfilled whilst it remains in the clouds" Stones (2005, p.76). Despite Stone's view that major developments were needed to strengthen structuration theory, he remained convinced of its potential and retained and embellished many aspects of the original theory including the duality of structure and the dialectic of control.

The interest in applying social theory to understand how analysts behave around critical decisions is the fundamental motivation behind this research. Structuration theory and strong structuration theory both offer attractive theoretical lenses for the research. Firstly, the theory provides the researcher with significant flexibility in its application as "it is, at the same time, both a grand theory and a theory of everyday life" (Coad et al, 2015, p.166). This is significant as, consistent with interpretive, qualitative work, it is important to avoid theoretical 'straight-jacketing' in the analysis process. However, since there is flexibility inherent in the theory, this was unlikely to be a significant issue. Secondly, the importance the theory gives to the centrality of agency in the formulation of structures very much aligns itself with the study of the position-practices of individual analysts in this research. It also accords with Stones' (2005, p.117) view of when the theory is most applicable:

“Strong Structuration’s objects of study are by definition those that involve in-situ questions about the hermeneutics of agents in combination with structural diagnostics.”

In a comment made regarding their choice of a Bourdesian framework over actor network theory, Imam et al (2016) posit that, in sociological terms, agency is embedded in individuals and structures and the study of these facilitates a deeper understanding of it. Such a comment is also clearly germane to the choice of strong structuration theory as the major theoretical lens for this thesis.

In applying the theory, the study embraces two levels of analysis, consistent with that recommended by Stones, to embrace “the general and the particular” (Stones, 2015, p.28). At a meso, more general level, the evidence is collected to enrich our understanding of the terrain facing analysts, and a position-practices perspective has been adopted (Coad and Herbert, 2009; Cohen, 1989). Much of this data was collected in the focus group phase. At a micro, more individual level of analysis, the study occupies the ontic position on the ontological scaling framework (Stone, 2005). This facilitates the examination of the four analytically distinct dimensions of the quadripartite cycle allowing the reach to extend to the duality of structure in action for individual analysts (Stones, 2005).

1.5 RESEARCH PROBLEM, OBJECTIVES AND QUESTIONS

The overarching motivation behind this research was to explore why analysts remain in demand despite the supposed flaws in their work, and their vulnerability to influence, highlighted in the introduction to this chapter and explored further below. Although a complete resolution of this contradiction is beyond the scope of any single study, the strategy employed in this research aimed to enhance understanding of how analysts are impacted by the social world and the arrangements embedded therein. This enables an appreciation of the value analysts provide beyond a more limited ‘numerical’ picture.

The particular conjuncture for this exploration is the stock rating decision. Consequentially, the research problem emerged from the enigmatic nature of these rating decisions. On the one hand, there is evidence in the literature that these decisions are important and represent a major objective of the analyst role (see for example, Schipper, 1991; Womack, 1996; Bradshaw, 2012; Groyberg and Healy, 2013; Kecskes et al, 2017). Contemporaneously, investing clients assert that they do not follow these ratings (for example, Brown et al, 2016) and that analysts, in making rating decisions, suffer from a variety of conflicts and biases (see for example, Corwin, Larocque and Stegemoller, 2017).

Investigating this paradox is central to this study. The objective is to develop an understanding of why analysts act as they do by rethinking the rating decision as essentially social, in contrast to the narrower economic lens in the existing literature. More specifically, examining the interaction between social structures and agency and the structuration cycles implicated in rating decision making. This leads us to the formal overall research question:

How do social structures and agency interact and influence sell-side analysts making stock rating decisions?

1.5.1 Bracketing and sub-questions

Bracketing is fundamental to the methodology employed in this thesis and to the application of strong structuration theory (Stones, 2005). Methodological bracketing refers to blinking out, or de-emphasising, certain aspects of a phenomenon under investigation or study so that the researcher can focus intensely on one aspect of the question at hand. The researcher can then return to the de-emphasised area in the next phase of bracketing. Stones (2005) refers to two main forms of methodological bracketing in strong structuration-based studies. The first is agent's context analysis. Here, it is the researcher's interpretation of the perspective and understanding of the agent in focus regarding the contextual field. In strong structuration terminology, this involves a careful mapping out and examination of the 'position-practice relations' of the agent. The other form of bracketing is agent's conduct analysis. This entails looking 'inwards' at the process by which the agent in focus tries to reconcile their habitus and specific situated knowledge with their understanding of the contextual field (Stones, 2005). Reflecting this bracketing process, separate sub-questions are needed to embrace both phases.

The first relates to the shape of the external terrain that presents the action horizon facing the analyst, the constraints and opportunities the analyst faces and the conscious and unconscious nature of these. These form the network of position-practice relations or the contextual field as referenced above. Stones (2005, p.84) argues that the substantive characteristics of a network of positional configurations have significant implications for structuration processes. This leads to the first research sub-question aimed at mapping out a detailed understanding of this contextual terrain:

RQ 1: How are the practices of sell-side analysts shaped by, and in turn, how do they shape, the position-practice relations network in which they are embedded?

Details of how the position-practice framework was applied are included in Chapter 5 of this thesis.

Investigating and mapping out these 'objective' features of the contextual field does not require the researcher to refer to the actor's internal structures. However, this is an essential component of structuration-based studies and leads to the next methodological bracket. This bracket, referred to as conduct analysis, involves an examination of the internal structures of agents as they attempt to navigate their way through the contextual field (Stones, 2005). In other words, to complete the analysis, there is a need to look, not only at the structural terrain facing an analyst, but also a more specific, situated microanalysis at the ontic level (Stones, 2015) which leads to the second research sub-question:

RQ 2: *How is the process of reconciliation between the internal structures of the analyst (habitus and conjuncture-specific knowledge) and the contextual field implicated in practices around rating decisions?*

This second sub-question essentially addresses structuration. It takes various components of the quadripartite process, the external terrain and the internalised knowledge of the agent and draws them together. The reconciliation referred to in the question is the essence of action, or active agency, that will have led to the reproduction, elaboration or transformation of structures as outcomes.

1.6 OVERVIEW OF ONTOLOGY, EPISTEMOLOGY AND METHODOLOGY

This thesis has been constructed around giving voice to analysts. It is through these interactions that an understanding is gained of how social structures and agency interact in the unfolding sequence of their professional work. Such a stance leads, quite naturally, to a constructionalist epistemology and a nominalist ontology. In other words, the exploration of structures and agency will emerge, and be constructed by the interaction between the researcher and analyst. Rather than pursue an 'objective single external reality', the research embraces multiple perspectives suffused as they are with historical and cultural specificity (Burr, 2015, p.4). Furthermore, the research is interpretive with a hermeneutic interest in understanding the lived experiences of the participants included in the study. Such a research philosophy has provided the anchor to determine numerous choices made throughout the project.

1.6.1 Methodology

The study has been approached by viewing rating decisions as very much part art and part science, with significant human judgement involved. Therefore, in this thesis, it is asserted that these critical decisions lend themselves to rich, qualitative research. There is no reason to restrict research on analyst ratings to quantitative methodologies alone.

The research was based around a field study employing a qualitative methodology. Two methods of data collection were used, focus groups and semi-structured in-depth interviews. These methods were complemented by other sources and documents.

A pilot stage, consisting of a small series of interviews and a focus group, was undertaken to aid the design and successful implementation of interview protocols and focus group plans. After a period of reflection and further planning, the second stage (focus groups) and third stage (in-depth semi-structured interviews) were conducted. In total, 54 professionals were involved in the research project, 23 in the pilot stage and focus groups (all analysts) and 30 in the interviews (14 analysts, 6 salespeople, 5 investor relations officers and 5 buy-side clients). A further 3 analysts, including 1 analyst who had not been involved in the core study, participated in the final validation process of the major empirical findings of the study in June 2018. All the analyst participants were experienced sell-side analysts, falling into an age range of mid-twenties to mid-fifties, recruited purposively from work-related contacts.

1.7 KEY CONTRIBUTIONS

A summary of the main contributions across scholarly, empirical, practical and theoretical matters is included below and covered in more detail in Chapter 8.

In empirical terms, the first major contribution relates to the impact of regulation on the practices of analysts. This independent external structure, has transformed much of what analysts do to such an extent that previously routine analyst practices are now prohibited.

A second important outcome from the study is the identification and exploration of sales as a major agent cluster in the analyst's network. This is an important empirical finding as the sales force, almost entirely absent from the existing literature, is heavily implicated in the ongoing actions of analysts.

In relation to the analysts themselves, the evidence points to a highly committed group of professionals, fiercely competitive, but also, and somewhat incongruously, sensitive to criticism. Their measure of success is the feedback they receive in the main from clients and they are openly in need of positive affirmation.

Finally, employing a structuration cycle lens enabled a more nuanced understanding of the scarcity of sell ratings, a persistent feature in the sell-side analyst field. Instead of explaining this feature of the analyst field as simply trying to 'keep management happy', this study has explored how complex aspects of power structures, habitus, resistance and the anticipation

of future position taking and making of agents in context, are all operating to sustain this outcome.

A number of interesting contributions arose directly from the social starting point of the research. The study provided evidence that rating decisions are substantially social in nature, as opposed to a predominantly rational economic exercise. Furthermore, fieldwork evidence suggests that it is this social dimension, downplayed in much of the mainstream research, that helps us understand the paradoxical use of research services central to this study. The results support the view that clients extract valuable information from a rating decision that extends beyond the basic buy-sell-hold type classification.

Methodologically, the combination of focus groups and interviews is a relatively unique aspect of the study. The coupling of both data collection methods was an especially effective structure for dealing with context and conduct analysis. Context analysis in general terms does not necessarily address highly sensitive, personal matters and so focus groups provide an efficient way of collecting such data and also identifying areas of disagreement and consensus. Following up with interviews allowed the researcher to probe areas of a deeper personal and sensitive nature that would be unsuitable for group-based discussion. Additionally, some triangulation of the focus group findings was possible in areas of overlap.

Theoretically, our use of structuration theory in a large complex organisation follows the encouragement to do so in Feeney and Pierce (2016). Organisations, such as investment banks, expose the research to a myriad of contextual and conduct matters. Strong structuration theory is well suited to cope with this range of issues. In particular, the disaggregation of the duality of structure into four elements can aid the researcher to achieve a more nuanced analytical outcome. To achieve the quality of evidence needed, structuration theory was embedded directly into the research design for this thesis, building on the encouragement suggested by Makrygiannakis and Jack (2018) to deploy theory at an early stage.

In this thesis, confidence was integrated as an emotional element in the stratification model which enhanced its use for understanding active agency. In particular, how confidence provides a basis for action and how its source, in the form of legacy acceptance and recognition, can help the understanding of analyst conduct. Finally, the extension of interviews beyond agents in focus to the critical agents in context greatly enhanced the quality of 'direct' evidence that could be brought to the project.

The first contributions to practice relate to the management of research departments. The evidence gathered in this thesis reveals the difficulties and emotions analysts face when

making rating decisions, such as the need to resist undue influence from corporates. This should allow managers to anticipate risks and vulnerability in staff and improve periodic appraisals through deeper understanding. Policymakers can see how high-level regulation permeates the practices of analysts and presents challenges as they try to comply with the spirit of the regulation. For analysts themselves, the fieldwork evidence allows them to see how other analysts understand the analyst role and, in particular, the emotions experienced where decisions about ratings do not go as planned. Finally, for clients who consume analyst reports, the empirical evidence on relationships with companies would be concerning. Analysts remain vulnerable to sanction if they publish a negative report on a company and so clients need to interpret research carefully. In addition, clients would have a much better understanding of the impact of regulation in analyst practices. They would therefore be in a better position to appreciate why analysts have become so cautious in their interactions and it would also provide reassurance to clients that analysts take their regulatory responsibilities seriously.

1.8 THESIS STRUCTURE

The thesis is organised into eight chapters. This chapter has introduced key aspects of the research problem and developed them into a number of research questions. The study seeks to enrich our understanding of critical decision making by sell-side analysts working in financial markets. Social theory was employed to facilitate the analysis of structures and agency through the lens of strong structuration theory. The design, qualitative in nature, is appropriate for such an endeavour given the inherent complexity and multifaceted nature of the social setting and the professionals involved.

Chapter 2 explores and synthesises relevant aspects of the extensive analyst literature and consists of three key strands. The first sets out the practicalities of the financial analyst position, both as information intermediaries and stock pickers, including which parts of the role appear most important and problematic. The second strand examines the rating decision in detail, including the impact such decisions have on share prices, the regulatory environment and the conflicts of interest that analysts face. The final section looks at the limited but important sociological literature on analysts. The chapter closes by situating this study within the context of this literature.

Chapter 3 provides detail on the theoretical lens applied in the study. In particular, social theory is used to advance our understanding of what analysts do and why they do it. The rationale for choosing strong structuration theory is explained as well as the opportunities and limitations that such a choice imposes on the research.

Chapter 4 addresses the philosophical basis of the study that leads to the research design. This includes the data gathering techniques employed and the analytical processes applied.

Chapters 5 and 6 examine the results in specific terms. Chapter 5 presents a comprehensive mapping of the position-practice relations of sell-side analysts and how this shapes the contours of the external structures facing these individuals. Chapter 6 focuses on understanding the analysis of conduct. It entails looking inwards at habitus and conjuncturally-specific stocks of knowledge. This conduct bracket explores the particular practices arising when analysts are making stock rating decisions.

Chapter 7, the penultimate chapter, brings the context and conduct analysis together to address active agency and outcomes. It explores the most important structuration processes at play in the analyst field.

The final chapter sets out the main conclusions and contributions which can be drawn from the study, and their relationship within the context of the original aims and questions raised, as well as relevant limitations. Suggestions for further research are also addressed.

1.9 CONCLUSION

This chapter introduces the major aspects of the study. The first of these being the focus on analysts and their rating decisions. This study is deliberately restricted to sell-side analysts working in equity markets, and this focus facilitates a deeper investigation into a sophisticated group of market professionals. Other analysts, in particular those on the buy-side, form part of this study by nature of their role as agents in context. The literature on analysts, identified as predominantly quantitative and positivist, was also presented in this chapter.

Social constructionism has been proposed as the appropriate epistemological perspective for the study. Consistent with this philosophy, the study is approached through the lens of social theory. In particular, the study of analysts is undertaken from a structure-agency perspective using Stones' (2005) strong structuration theory. This provides a range of tools to investigate both the context and conduct of analyst rating decisions. The dearth of socially infused studies of financial market participants has provided abundant scope for addressing new areas of interest. In this study, an alternative conceptualisation of analysts is adopted, which does not see them dominated by rational economic thought, but instead as social actors operating in complex environments.

The combination of the analyst as an agent in focus, the concentration on rating decisions and the employment of a structure-agency orientation, all work to situate this thesis apart from

the mainstream analyst literature. The design of the project around a focus group and interview-based field study further differentiates it from the more typical quantitative point of origin for most analyst related studies.

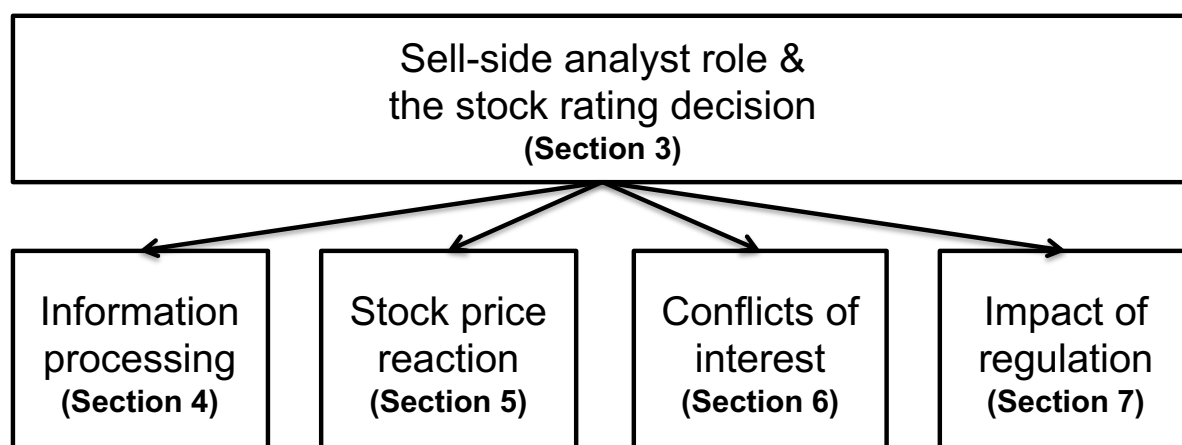
CHAPTER 2.
EQUITY SELL-SIDE ANALYSTS' RATING
DECISIONS:
A LITERATURE REVIEW

2.1 INTRODUCTION

Chapter one set out the two ingredients which constitute the essence of this thesis; the focus on sell-side analysts and their stock rating decisions, and the adoption of an approach infused with social theory. This leaves two areas of literature of significance to this study. The first is the exploration of the strong structuration theoretical framework, which is covered in Chapter 3. The second, the body of research on analyst stock rating decisions, is covered in this chapter. It is important to review this literature to situate the thesis against the broader mainstream body of research on analysts and to extract the important themes and lessons embedded therein. Whilst remaining critical of the restricted methodological and philosophical stance in the mainstream literature, there are many important studies that have contributed to enhancing the appreciation of analysts' work and their practices. In this study, a research strategy was adopted that would give voice to the analysts to enable a deep understanding of their opinions, thoughts and experiences as human agents. Their voices are rarely heard in mainstream literature, since archival methods, by methodological necessity, privilege databases and numerical correlations. This thesis has provided opportunity to combining the empirics from mainstream literature with evidence of the lived experiences of analysts.

Given the large volume of literature on analysts, a structured approach was employed to facilitate the most important and relevant research. The literature review was therefore narrowed to focus on analyst stock rating decisions rather than, for example, earnings forecasting. A thematic approach was adopted to help organise the review and establish a logical path through the large number of papers. This chapter is structured to first place the stock rating decision in the context of the overall analyst role. The two sections that follow concentrate on detailed aspects of making stock recommendations, namely the processes analysts go through to determine their rating and, secondly, how informative analysts' recommendations are to investors making decisions. After this, the research on important contextual matters, conflicts of interest and the impact of regulation, is reviewed. This chapter structure is depicted in Figure 2.1 below. Finally, the literature on utilising social theory to understand the practices of analysts is explored. The chapter ends with a summary of the conclusions that can be drawn from the review into the next phase of the study.

FIGURE 2.1. LITERATURE REVIEW STRUCTURE



2.2 APPROACH TO THE LITERATURE SEARCH

As previously mentioned there is an extensive literature on sell-side analysts. Bradshaw (2011) found over five hundred papers on SSRN.com covering some aspect of analysts' work. A review by Ramnath, Rock and Shane (2008) found that over 250 papers were published across just eleven leading journals in the sixteen-year period from 1992 to when the review was published. Exploring this literature reveals three important characteristics. First, it is primarily included in accounting journals. Given that analysts predominantly work in investment banks, it might be more natural to expect the related research to be in finance journals. The role that analysts undertake as primary consumers of accounting information (for example, Schipper 1991) might account for this. Therefore, this research focussed on searching the leading accounting journals. Secondly, the literature was, almost without exception, positivistic and quantitative in nature with almost no qualitative based studies (Abhayawansa et al, 2017). Thirdly, the literature was found to be regionally unbalanced with a high concentration of papers on US analysts and US data. There were only a handful of studies conducted in other jurisdictions.

In order to cope with such voluminous literature, a structured approach was adopted to the literature searches. This consisted of two main elements. The first element involved extensive searching of the mainstream literature for relevant papers on analyst rating decisions. The second process, a much smaller exercise, was searching for research that had employed social theories to examine analysts. The details of the searching processes are included in Appendix 1.

In terms of structuring the analysis in this chapter, the approach was influenced by Ramnath et al (2008). In their research review paper, Ramnath et al (2008) distilled analyst research

into seven general topic areas. Some of these are outside the scope of this study, such as those examining details about information sources used by analysts, methodological issues around databases used for archival work and other matters more pertinent to earnings forecasting rather than stock recommendations. This left four areas most relevant to this study to which two sections were added. The first, a contextual section to describe the overall nature of analyst work, allowing the placement of the rating decision within context. Second, a section on analysts and social theory, a topic arguably too niche to have been included in Ramnath et al (1998), but germane to this study.

This approach led to the broad structure of the literature review, in the remaining parts of this chapter, as follows:

1. What are the main activities of analysts and how important is the stock rating decision? (Section 2.3)
2. What is the nature of analysts' decision processes on stock recommendations? (Section 2.4)
3. How informative are analyst stock recommendations? (Section 2.5)
4. How do conflicts of interest and related biases affect the practices of analysts? (Section 2.6)
5. How does a changing regulatory environment affect the practices of analysts and their role in capital markets? (Section 2.7)
6. How does the social terrain affect the work of analysts? (Section 2.8)

2.3 WHAT ARE THE MAIN ACTIVITIES OF ANALYSTS AND HOW IMPORTANT IS THE STOCK RATING DECISION?

Sell-side analysts are typically employed in investment banks and brokerage houses (Cascino, et al, 2014), covering companies in a specific industry (Tan, 2014; Boni and Womack, 2006). Successful analysts expect to be seen as industry experts drawing attention to critical and detailed information of relevance to investors on their specialist sector, companies and industries (Imam & Spence, 2016). Their role is often characterised as information intermediaries involved in producing earnings forecasts and valuations of stocks and they are seen as key players in financial markets (Tan, 2014). In an overall sense, analysts can be seen as playing a key role in the market for information (Barker, 1998).

There are various ways of disaggregating the analyst role or position. A simple starting point is to consider three activities embedded in the analyst position; information gathering, information processing and client servicing. These are considered below.

2.3.1 Information gathering

The first aspect, termed 'information gathering' by Michaely and Womack (1999), essentially entails taking a diverse range of information inputs, applying appropriate filters, and then choosing which data points to give particular weight to. Jegadeesh et al (2004) saw the potential for analysts to add value to investors by gathering information that is not readily available to the buy side, and also a data sifting role to highlight data of particular value relevance.

The emphasis on information gathering and processing is context specific. For example, Chen, Cheng and Lo (2010) examined gathering and processing activities around earnings announcements. They found that, prior to earnings announcements, discovery (information gathering) dominates. However, after the release of earnings data, the emphasis shifts to processing. The extent of processing is a function of the complexity of the accounting information.

Brown et al (2015) surveyed analysts to ascertain what information sources were most important to their work and a summary of the results is presented in Table 2.1 below. Based on their evidence, analysts clearly attribute significant weight to their industry expertise, a conclusion supported by the recent work of Bradley, Gokkaya and Liu (2017). In that study biographical data was collected about 'pre-analyst' industry expertise. Bradley et al (2017) showed that analysts with such expertise produced more accurate earnings forecasts, better performing stock recommendations and were more likely to be designated as leading analysts in external surveys.

TABLE 2.1. ANALYSTS' INPUTS FOR EARNINGS FORECASTING AND STOCK RATINGS⁷

Item of Information	Respondents who answered 'very useful' (%)	Average score (higher values mean higher usefulness)
Your Industry knowledge	79.35	5.15
Private communication with management	64.96	4.70
Earnings conference calls	61.96	4.67
Management's earnings guidance	61.41	4.65
Quality or reputation of management	46.45	4.22
Recent earnings performance	41.30	4.18
Recent 10-K or 10-Q	42.39	4.16
Other analysts' earnings forecasts	46.20	3.96
Primary research (e.g., channel checks, surveys, etc.)	7.07	2.16

The importance that analysts associate with management access persists despite regulatory changes that make these conversations limited to public information only (see Section 2.7 below). There remains convincing evidence that such access does make a difference. For instance, brokers often host conferences to provide clients and analysts with access to corporate management presentations and discussion. Green et al, (2014, p.253) find that those analysts “with a hosting relation make more informative recommendation changes than non-hosts, and the difference is the largest in the post-conference period.” Therefore, analysts in these cases appear to be using their privileged access to gain an advantage.

2.3.2 Information processing

The second phase of the role involves processing, or more specifically, the application of cognitive processes. This is where the information gathered is absorbed and financial analysis technologies, such as integrated financial statement models, valuation spreadsheets and broker house databases are combined with the analyst's thinking in order to produce a range of outputs. Typically, these outputs are in the form of industry reports, earnings forecasts, valuations (target prices) and ultimately ratings (for example, Zhang and Zheng, 2014). This

⁷ Adapted from Brown et al, (2015)

work would typically be embedded in the form of a written research report sent to clients, a very important facet of their practices (Barker, 1998).

2.3.3 Client servicing

The third dimension of the analyst role relates to clients. The external clients of sell-side analysts who consume their research are buy-side analysts and fund managers who themselves work at institutional investment firms (Imam & Spence, 2016). Sell-side analysts '*compete intensely for investor attention*' (Baum, Bowers and Mohanram 2016, p.1611) and will typically service these clients with some sort of combination of face-to-face meetings, phone conversations, emails, online chat (for example, Bloomberg chat forums), in order to draw attention to their work, and to explain reports, calculations and conclusions further. Each broker will put together a list of what Groysberg and Healy (2013) described as 'leading clients.' Such clients will be prioritised for analyst access and other related services.

2.3.4 The nature and importance of stock rating decisions

Where does the rating decision fit within the role? Many see rating decisions as *the* central task of the analyst role. For example, Kecské et al (2017, p.1855) support such a position; "The job of sell-side equity research analysts is to provide their investor clients with profitable investment advice." The rating decision is a prominent decision and offers a unique opportunity to study analyst judgment (Jegadeesh et al, 2004). It is the culmination of their analytical and valuation efforts. Womack (1996) contrasted the importance of earnings forecasting and making stock recommendations, arguing that earnings forecasting was "secondary to the analysts main objective of making timely stock recommendations" (Womack, 1996 p.138).

When examining analyst recommendations, it is important to think about the objective of the decision. An approach based solely around economic rationality lies at the heart of traditional texts, such as the infamous '*Graham and Dodd*' *Security Analysis*' (Graham et al, 1988). In this case the purpose of the rating decision was a simple matter - analysts use recommendations to identify undervalued (overvalued) stocks to recommend to buy (sell). As Womack (1996, p.164) succinctly put it, "In effect, an analyst's recommendation revision means, 'I have analyzed the publicly available information, and the current stock price is not right.'" Womack (1996) is suggesting that the judgement as to the success or failure of a recommendation decision lies in an examination of the subsequent stock returns. If a recommendation fails to generate excess returns then, in these terms, it has failed. This is the model embraced in the mainstream literature.

There is an acceptance, of course, that other factors may overwhelm an analysts' rationality. For instance, to quote Bradshaw (2004), in explaining certain unexpected results, "perhaps analysts use such models, but personal opinions or biases dominate their recommendations". (Bradshaw, 2004, p.47). Our contention in this study is that, in common with other aspects of analysts' work, rating decisions are social in nature (Imam and Spence, 2016; Fogarty and Rogers, 2005). There is much more going on than a rational, mechanistic search for mispriced stocks.

There has been some debate about the importance of the rating decision in the literature. For example, Brown et al (2015) found that analyst compensation was more directly tied to client broker vote recognition than it was to the performance of analysts' recommendations, suggesting that it may be less important. Others argue that the substance of an analyst report is the discussion and the analysis, rather than merely the earnings forecast, or the specific recommendation (Twedt and Rees, 2012). In fact, there is evidence to show that the more 'readable' analysts' reports are, the higher the trading volume reaction to the publication of the report is (De Franco et al, 2015). Additionally, buy-side analysts often comment that the particular stock recommendation is less important than the analysts' industry knowledge, insight and analysis and that they do not play a major role in their own decisions:

"Specifically, although we find that buy-side analysts have strong financial incentives to produce profitable stock recommendations, fewer than 3% of them indicate sell-side stock recommendations are a very useful input for their own stock recommendations."

(Brown et al, 2016, p.140)

Finally, Beunza and Gerund (2007, p.18) report anecdotal evidence that analysts themselves do not want to be seen as merely forecasters or those who only recommend stocks.

Nonetheless, there is other evidence that indicates the importance of these decisions is more nuanced and balanced than it might initially appear to be. In contrast to the evidence from the survey responses in Brown et al (2016) above, there is robust evidence that investing clients do pay attention to analysts' recommendations and often follow them. Chen and Cheng (2006) investigated trading around analyst recommendations. The focus was on large trades, which would be consistent with how institutional investors, the key clients of analysts, trade. They found that the majority of these large trades followed the direction of analysts' recommendations. Green (2006) identified that there is a clear opportunity to generate abnormal returns in the two-hour window after a stock recommendation change. He posited that it is the clients of large investment firms who get quick access to the research, and so it is they who 'trade away' this advantage. Busse, Green and Jegadeesh (2012) show more directly that trades initiated on the buy side follow sell-side recommendations, but this does

not happen in reverse. Indeed, in Brown, Wei and Wermers (2014) it was shown there is an *overreaction* to analyst recommendation revisions which impacts the profitability of investment funds. Mikhail, Walther and Willis (2007) found that this trading activity on analyst recommendations extended to both small and larger investors although it is the larger investors who trade more. Given this clear use of ratings by clients in the literature, a series of, say, poor stock calls may well impact the analyst's reputation with such investors.

Bringing these threads together, on the one hand investors de-emphasise the importance of analyst's recommendations (Brown et al, 2016) and on the other there is strong evidence that investors act on analyst ratings and profit from them (Mikhail, 2017; Busse et al, 2013; Chen and Cheng, 2006). Concurrently, analysts themselves suggest that, in compensation terms at least, the success of these recommendations is unimportant (Brown et al, 2015). These seemingly disparate strands can be drawn together. First, investors would have a vested interest in claiming credit for their investment decisions. If analysts did have a significant impact on such decisions, then the value added by buy-side intermediaries would be justifiably called into question. Second, even if analysts do not explicitly correlate the performance of their recommendations with their compensation, it is likely to have an indirect impact via client votes. Broker vote scores reflect an assessment of the diverse services provided by analysts, including stock recommendations. Therefore, it is likely to result in lower votes which is a critical input to the analyst scorecard (Groysberg and Healy, 2013). Additionally, in Chapters 5 and 6, there is evidence that strong, or indeed weak, stock picking attracts the attention of the sales force, an important agent cluster based on our fieldwork.

In conclusion, the importance of the rating decision is a function of the particular client, analyst and situation, but there is little doubt that it is a highly relevant output to study (Martinez, 2011) and plays a significant part in the activities of analysts.

2.3.5 Analyst incentives

Lastly, it is worth reflecting on some important literature on analyst incentives. Groysberg and Healy (2013) identified a wide range of metrics that appear in a typical analyst report card including:

- Market share and commissions in the analyst's sector
- Institutional investor ranking and Wall Street Journal stock picking performance
- Client votes and comments
- Sales and trading internal survey

Groysberg, Healy and Maber (2011) used access to a propriety data set at a major investment bank to examine the factors that drive compensation in that organisation. The key drivers are performance in external surveys (such as Institutional Investor polls, so called “all-star” recognition), the size of the analyst’s coverage portfolio, being identified as a top stock picker and investment banking contributions (Groysberg et al, 2011). These are consistent with the metrics that they identified in the typical analyst report card. It is worth noting that rewarding directly for investment banking contributions is likely to have diminished in significance given the stricter regulatory environment. Interestingly, these various factors were also significant in the tabulation by Brown et al (2015) mentioned above.

2.3.6 What have we learned from this section?

Distilling the analyst position is difficult. The three roles of information gathering, processing and servicing clients provides a basic framework. This is not to suggest an overly deterministic linear process. For example, the expectation would be for processing to be an ongoing, continuing activity. In this section, the importance of the rating decision has also been addressed, as well as the apparent paradox as investors reject the idea that they follow ratings yet appear to trade based on them. Finally, the key elements of the analyst scorecard, an important artefact in trying to understand analyst practices, reflects a mix of client votes, external rankings, internal rankings and stock picking. The importance of these matters comes to the fore again in the discussion around fieldwork in later chapters.

2.4 WHAT IS THE NATURE OF ANALYSTS’ DECISION PROCESSES ON STOCK RECOMMENDATIONS?

In Chapter 1, reference was made to the ‘black-box’ of analyst processing and valuation, that researchers are keenly interested in, as illustrated in Figure 2.2 below. However, investigation into these black boxes presents a challenge to the mainstream literature as they are “not easily penetrated by empirical archival research methods” (Bradshaw, 2009, p.1077). Another observation worth outlining is the highly linear, deterministic depiction of analysts’ rating decisions represented in the diagram.

FIGURE 2.2. SIMPLE SCHEMATIC OF ANALYST INFORMATION PROCESSING⁸



Central to this thesis is the contention that making a rating is a social endeavour rather than an exercise in rational calculation, and so, a linear process would not be representative. In Figure 2.2, the genesis of a stock recommendation is presented as the information gathering activities introduced earlier in the chapter. Analysts expend significant effort gathering information from a number of sources about the equities under their coverage universe. They then undergo a wide-ranging evaluative process “to form their beliefs about the intrinsic stock values relative to their current market prices, and finally rate the investment potential of each stock” (Jegadeesh et al, 2004, p.1083-4).

The outcome of these deliberations is an earnings forecast, a valuation and ultimately the stock recommendation. Subsequently, analysts change their stock ratings when this relationship between the analyst’s estimate of intrinsic value and the market value alters (Kecske et al, 2017). In this thesis, the argument is made that the process is interlaced with significant social elements and so is more complex, and less deterministic, than this mechanistic routine might suggest.

To understand the processing activities further there is a need to examine briefly two main issues. First, what valuation approaches do analysts use to derive the intrinsic value of a stock? Second, how do individual firms structure their analysts’ recommendations into a rating system?

⁸ Diagram from Bradshaw (2009)

TABLE 2.2. ANALYSTS' USE OF VALUATION MODELS⁹

Valuation Model	Respondents who answered 'use very frequently' (%)	Average score (Higher score means more frequent use)
Price/earnings (P/E) or Price/earnings growth (PEG) model	61.33	4.42
Cash flow model	60.22	4.37
Dividend discount model	12.22	1.76
A model based on earnings momentum	9.44	1.53
Economic value added (EVA) model	7.73	1.14
Residual income model	4.97	0.67

2.4.1 Which valuation models do analysts use?

In the survey of analysts by Brown et al (2015), the models used by analysts to facilitate their determination of intrinsic values was explored. It is important to note that although analysts are part of the complex financial markets system, their models are not attempting to represent the operations of such markets, as many other financial models do (MacKenzie, 2006, p.6). Instead they are modelling the operations of the companies they cover.

As can be seen in Table 2.2, there is a clear preference for less complex, single period models, such as P/E, over multi-period models such as discounted cashflow (DCF) or residual income. This is further evidenced in the literature (for example, Barker, 1999; Bradshaw, 2002; Demirakos, Strong and Walker, 2004). Bradshaw (2002) found that the most popular basis for the formulation of a recommendation is a combination of P/E multiples and growth rates. These can be represented as the PEG ratio where P/E is divided by growth. However, more recent evidence has shown that, whilst earnings multiples remain widely utilised, there is more use of DCF, a multi-period model (Cascino et al, 2014). Demirakos, Strong and Walker (2010) saw an increased use of DCF and they questioned whether it was because analysts saw the intrinsic merit in the use of a multi-period model or whether it was actually done because fund managers expected to see it.

⁹ Adapted from Brown et al, (2015)

Demirakos et al (2010) provided evidence that DCF and P/E tend to be used in different circumstances. DCF is favoured in bear markets and to “justify bolder target prices and to value high-risk firms, small firms, loss-making firms, firms with extreme negative or positive sales growth, and firms with a limited number of industry peers” (Demirakos et al, 2010, p.67). In contrast P/E is more likely to be used in a bull market and other less contentious analytical situations.

In more recent evidence, based on a content analysis of European analyst research reports, Imam et al (2013) found that earnings multiples and DCF are the two most popular measures. They provided important European evidence of the increased use of “sophisticated DCF for non-financial and ROE based models for financial sectors”. They suggested that the driver behind this is criticism of investment analysts over time (Imam et al, 2013, p.10).

In this section, the focus is on the model as the identifiable vehicle by which analysts compute, and also articulate, their valuations. However, models require an analysis framework to drive the valuation. For example, Nissim and Penman (2001) outlined a detailed process by which ratio analysis, based on accounting data, can ‘feed’ valuation routines. Although this type of analysis is central to processing, very little attention is given to it in the literature, possibly because it can be difficult to describe it in jargon terminology, such as ‘PEG’ or ‘DCF’. It is, nonetheless, important to recognise that a diverse range of processing activities would be ongoing in addition to formal valuation modelling.

2.4.2 Ratings systems used by analysts

A central aspect of producing stock recommendations is the rating system itself. This is very rarely mentioned in the literature, however, given that brokers tend to use a variety of rating systems across financial markets, it is very much germane to processing. Each broker will have their own unique set of rules and terminology around rating systems (Groysberg and Healy, 2013). Some firms employ an absolute recommendation system (for example, Bank of America Merrill Lynch¹⁰) whereas others employ a relative system (for example, Barclays). In an absolute rating system, the rating takes the form of an explicit ‘buy’, ‘sell’ or ‘hold’ classification, whereas in a relative system the rating is expressed in the form of an ‘overweight’, ‘underweight’ or ‘equalweight’ recommendation (Leins, 2018, p.109). In a relative rating system, the analyst is merely ranking the companies in their coverage universe¹¹. It

¹⁰ The system used is openly disclosed on research reports issues by these banks.

¹¹ In an absolute system the recommendation is driven by pre-defined percentage deviations between the analyst’s valuation or target price and the current share price in the market. So, for example, a buy recommendation might be defined as a stock with more than 15% upside between the target price as calculated by the analyst and the listed share price. In a relative system the ranking is not defined in

should also be borne in mind that, in addition to recommendations on stocks, research departments also produce industry recommendations. In some firms these may come from the stock analyst themselves, although it is highly likely that any cross-industry recommendations would come from strategist¹² research (Kadan et al, 2012).

Research on rating systems is almost completely absent from existing literature. Bradshaw (2012) cautions on assuming uniformity across different firm's rating approaches, on the basis that there is much important and specific complexity embedded therein. This has important implications for archival research. If all buys are not actually put together in the same way, then it challenges the veracity of the results. Another important point made in the literature is that ratings systems with a finer grain of analysis, for example a 'five-point' rating scale rather than the three-point scale discussed above, will convey more information. Kadan et al (2009) examined stock recommendations and demonstrated that recommendations issued by brokers who used a three-tier rating system provided less information to investors than higher point rating scales. Finally, Boni and Womack (2006) found that analysts were better at ranking stocks within a sector. This is consistent with a relative rating system as described above.

2.4.3 What have we learned from this section?

The rating process can be depicted as a linear, calculative exercise. Despite the appeal of such a rational conceptualisation, the assertion in this study is that the process is much more complex and unpredictable given the embedded social processes in analyst work. Nonetheless, the calculative elements of analyst work remain central to this, as with the use of particular valuation models. The literature points to a predominant use of single period models, such as P/E, although recently there has been increased utilisation of multi-period models such as DCF. The literature suggests that the rationale behind this switch is at least partially a reflection of the expectations of clients. These clients, through such expectations, establish important norms, and along with companies, play an important part in the construction of the landscape facing analysts. This is revisited and explored at length in Chapters 5 and 6.

percentage terms. Instead, if an analyst covered a number of stocks, then they would expect the stock with the highest upside (or lowest downside) to the current share price to be overweight and one with the least upside (or highest downside) to be underweight, and so on.

¹² Strategy analysts do not focus on a particular industry. Instead, their research addresses a region and asset class. For example, a strategist might cover European equities. They do not make rating decisions at the individual stock level but instead make calls on broad asset classes and sectors. For example, a strategist might recommend being overweight European banks but would not specify which banks to buy which would be the job of the stock coverage analyst.

2.5 HOW INFORMATIVE ARE ANALYSTS' STOCK RECOMMENDATIONS?

Many scholars view the analyst recommendation decision as a critical aspect of their role (for example, Schipper, 1991; Womack, 1996; Bradshaw, 2012; Groysberg and Healy, 2013; Kecskes et al, 2017). Quite reasonably, if they are so important, there would be an expectation that analysts' stock recommendations would have an impact on stock prices and, if followed by investors, the generation of returns for clients. The established approach in the mainstream literature is to measure such effects through observing 'abnormal' returns. In other words, did the recommendation result in returns in excess of a designated benchmark such as a broad stock market index.

There has long been interest on the influence and profitability of analyst stock rating decision making stretching back to Cowles (1933). In that early study, before the existence of computers or modern theories of finance, Cowles concluded that analysts were *not* able to make stock recommendations that produced abnormal returns. In contrast, more recent evidence presents a more complex and mixed picture, albeit with the consensus being that analysts *do* impact share prices, and that abnormal returns can be earned from following their recommendations.

Although the literature on stock recommendations is extensive, there have been fewer papers on the process of stock recommendations than on earnings forecasting, a somewhat curious position given that earnings forecasting represents an input to the recommendation, rather than an end in itself (Schipper, 1991; Brown et al, 2015). In this section, the review is organised into a number subsections, each addressing an aspect of the research on stock recommendations. First, the broad question of the impact of analysts' rating decisions on share prices, and how long these effects last, is explored. The question of whether clients can reasonably take advantage of these ratings to generate abnormal returns is covered in the subsequent part of the chapter. Finally, two specific issues are addressed. The first is whether higher quality analysts make better recommendations. The second is whether a combination of different elements of an analyst's report allows investors to discriminate between effective and less effective stock calls.

2.5.1 The impact of stock recommendations on share prices

Based on an extensive literature, it is widely accepted that, on average, analyst stock recommendation decisions impact upon share prices (see for example, Womack, 1996; Stickel, 1995; Francis and Soffer, 1997; Barber et al, 2001; Ryan and Taffler, 2006 and Kecskes et al, 2017).

There has been an interest in the stock recommendations of analysts over many decades. Stickel (1995) produced an important and wide-ranging study which examined various aspects of the rating decision, the findings of which remain relevant to this day. The first and most significant is that analysts' recommendation changes *do* impact stock prices with buys recording an increase of 1.16%, and sells, a decline of 1.28% over the eleven days around the recommendation. A number of factors can impact the strength of the reaction:

1. Recommendations by highly-ranked analysts (as measured by the Institutional Investor 'All-Star') have the greatest impact on share prices, albeit these effects appear temporary;
2. Recommendations that skip a rank (so called 'double downgrades' or 'double upgrades') unsurprisingly have a larger impact than single rating changes;
3. Downgrades to sell have a greater impact than downgrades to hold;
4. Recommendations made contemporaneously with a same direction earnings adjustment have greater impact;
5. Recommendations have a larger impact on share prices for smaller companies.

This paper was published just ahead of important advances in data availability. Stickel (1995) used what is known as the 'Zack database' published by Zack Investment Research. At the time, this database had some important limitations, two of which were especially important (Womack, 1996). First, some brokers did not allow Zack to use their research and it was not verified by brokers (who often would identify errors or other issues). Secondly, the precision of the 'timestamp' on the publication timing was sometimes inaccurate. If you wish to assess the market impact of thousands of stock recommendation changes published by analysts, then there is a need for data to be precise and complete in order to isolate the impact of a recommendation release.

Subsequent to Stickel's (1995) study there were important advances in the availability of data through the 'first call' database. This facilitated improvements in precision and completeness which undermined previous studies. The first major paper to employ these enhanced databases was Womack (1996), whose work in many ways established a blueprint for future research.

Womack's (1996) major findings related to the pattern of post recommendation stock price movements. In particular, the paper looked at the longevity of such price effects. Using the improved data source, consistent with Stickel (1995), Womack (1996) found that stock price reactions to recommendation changes were significant. These were not short lived and did not conform to a pattern of short-term mean reversion. Instead they exhibited what is referred to as a *drift*. For example, a drift for a sell recommendation would be an ongoing fall in the

share price after the initial recommendation is published. In other words, downgrades are followed by negative returns and upgrades by positive returns. Womack (1996) identified a 9.1% negative drift for sells that extended over six months. It was shorter (one month) and smaller (+2.4%) for buys. The existence of a drift has been confirmed by a number of subsequent papers including Boni and Womack (2006), Barber, Lehavy, and Trueman (2010) and Loh (2010). Loh (2010) provided evidence that the drift may have been the result of investor inattention. He measured this by examining the stock turnover and proxying low turnover for high inattention.

Numerous pieces of research spawned from the approach taken in Womack (1996), expanding and developing its themes. Francis and Soffer (1997) found that it is the *revision* of a rating that matters rather than the rating level (buy/sell/hold) itself. This influenced future research to focus more on revisions rather than merely the recommendation. Francis and Soffer (1997) also found that stocks had a smaller reaction to reiterated ratings than to new ratings. Others continued this focus on revisions. Jegadeesh et al (2004) supported the finding that the information and value that analysts can bring to the market is best captured through changes to recommendations rather than the level itself.

However, more recent research has begun to unearth evidence that questions the nature and longevity of the price effects that have long been accepted. In a recent study on market impact, Altinkilic et al (2016) sought to delve into the period over which the price effect of analysts' recommendations persist. In other words, up-to-date evidence on the post recommendation drift. They use much more up-to-date data (2003-2010) which reflects a period during which there were important developments in high frequency trading and a fall in transaction costs. Their important finding was that the average post recommendation drift is no longer significantly different from zero. They contend that the elimination of high transaction costs and the ubiquitous availability of advanced computing power erode the price impact, and hence the drift, more quickly, and so the findings "suggest that it could be difficult for analysts to provide useful new information for ordinary investors in a low transaction cost environment." (Altinkilic et al 2016, p. 395).

In addition to the price impact and longevity studies, there has also been investigations into the distribution of analyst ratings. Womack (1996) found that sell recommendations were rare with new buys outweighed new sells by a factor of over 6:1. Barber, Lehavy, McNichols and Trueman (2006) looked specifically at the issue of rating diversity and what this implied for the market reaction. Their particular focus was on a US regulation, NASD 2711, which required firm level disclosure of the distribution of analyst ratings (addressed in further detail in Section 2.7 below). They found that the ratio of buys to sells fell dramatically from 12:1 to 3:1 following the introduction of the regulation. The buy ratings of firms with the lowest proportion of buys

overall outperformed the buys of firms with the highest proportion. The persistent rarity of sell recommendations is a theme returned to throughout this thesis.

The lack of regional diversity is one of the weaknesses of the existing literature with very few studies targeted at other regions in the leading research journals. One of the most important was Ryan and Taffler (2006) who examined the stock price reaction to analysts' recommendations in a UK context. Their findings are broadly consistent with the literature in general in that recommendations had a significant impact on share prices both immediately and in subsequent months. The market reaction was more pronounced for new sell ratings than for new buys, presumably reflecting the relative rarity of sell recommendations. However, a fascinating comparison is that sell ratings were far more prevalent in the UK than in the US. In the Ryan and Taffler (2006) study, the ratio stood at 2.3 buys for every sell. One issue with this paper is that the data was already ten years old on publication and is now over twenty years old (Womack's data now being over thirty years old). In Chapter 6 we provide recent data that in Europe the ratio of buys to sells remains much smaller than in the US¹³.

An interesting question was posed by Loh and Stulz (2014); do analysts' recommendations play a bigger role when markets are suffering? It stands to reason that investors might need more help, support and advice when faced with challenging markets. The study found that in bad times analysts' revisions had a larger stock price impact, suggesting investors were paying more attention. Loh and Stulz (2014) also found evidence that analysts increased their output issuing longer reports issued more frequently. There was a particular focus on those firms that were harder to value, suggesting they were working harder to satisfy the heightened investor need. Ivkovic and Jegadeesh (2004) also examined a timing issue; is there a temporal dimension to the information content of recommendations around earnings announcements? They presented evidence that, in the week before earnings announcements, upgrades exhibited a sharp increase in information content. A similar pattern did not exist for downgrades. The hypothesis put forward by Ivkovic and Jegadeesh (2004) was that management were reluctant to reveal negative news and so the view of the analyst was obfuscated to some degree. Market participants realised this and so the downgrades were not treated as having as much information content.

2.5.2 Investor implementation of stock calls

As seen already, early papers on stock recommendations (see, for example, Stickel, 1995; Womack, 1996) focused on the ability to make abnormal returns. These returns represented

¹³ See Chapter 6 (Figure 6.2) for more detail on the current rating distribution in Europe, which is 3.13 buys for every sell.

the ability to beat a particular benchmark if analysts' recommendations were followed. Important as this was, it did not address the practical implementation of the recommendations analysts can make. Although initially neglected, the literature did extend to adopting a more 'investor-based' perspective. This entailed dealing with practical implementation issues, such as the unavoidable transactions costs of implementation and necessary portfolio rebalancing faced by investors attempting to take advantage of such opportunities. One of the most important papers to look in detail at how easily recommendations could be exploited was Barber et al (2001). They found that daily portfolio rebalancing and prompt reaction to recommendation changes was required to gain the maximum abnormal returns on the back of analyst stock recommendations. Such a level of trading activity would incur high levels of transaction costs such that the final net returns were not statistically different from zero. In essence, the opportunities were there but transaction costs consumed the advantage.

Green (2006) linked the speed of access to rating changes provided to select clients with the ability to exploit the opportunity. Typically, large clients of firms gained access to the details of major recommendation revisions rapidly on publication. They were also likely to have privileged access to analysts to discuss and debate their recently published rating change. The outputs were therefore in one sense 'quasi-private' and potential advantages occur in the window before broader dissemination, discussion and debate. The conclusion of this study was that investment returns can be enhanced if investors act promptly as short-term profit opportunities existed for only two hours after a recommendation was released.

2.5.3 Combining other information with recommendations

Given the amount of time analysts spend on earnings forecasting, and the scholarly interest in that activity, it is worth thinking about how the two decisions interact. One stream of research considers whether the impact of a recommendation, rather than being seen as an isolated data point, needs to be examined in conjunction with other pieces of related information to realise its full information content. The logic is straightforward. If an analyst report releases a combination of a recommendation and, for example, an earnings forecast, can it be used to discern any extra information content that could be exploited by investors? Francis and Soffer (1997) were one of the first to combine earnings with stock recommendation revisions. They found that, in a report that articulates a positive stock recommendation, investors place more reliance on other information, especially earnings forecasts revisions.

Kecske et al (2017) found that both of the decisions were often contemporaneous, with approximately one in three recommendation changes accompanied by an earnings forecast change. Bradshaw (2004) undertook one of the first studies to link an analyst's stock recommendation with their earnings forecasts. All other things being equal, Bradshaw

hypothesised that if a typical analyst model was taken, and the analyst's earnings forecasts were inputted then this should lead us to the buy/sell/hold recommendation the analyst made. This would be consistent with the rational economic process of trying to identify over/under priced stocks assumed in the literature. However, when Bradshaw input analysts' earnings forecasts into various present value models, he could not find evidence that such a predictable relationship existed. Instead, only when using valuation heuristics, in particular PEG and long-term growth rates, does the predicted relationship work. In explaining the results, Bradshaw (2004) suggested that other factors may have dominated the rating decision beyond the rational process assumed in much of the literature.

Lustgarten and Tan (2008) found a positive relationship between earnings forecasts and stock recommendations. Analysts had the option to use a wide range of information in their recommendation formulation process. They contended that rather than expecting earnings forecasts to always be a driver of recommendations, it would be especially important when the forecasts diverged from consensus. At this point of departure from the common consensus, the forecast would become more value relevant. If forecasts told investors nothing new, then such consistency with consensus embedded less information content, and so they were of less relevance to valuation. Lustgarten and Tan (2008) argued that this may explain the results of Bradshaw (2004) as that paper used consensus earnings and consensus recommendations.

Brown and Huang (2013), in a similar study, looked at the profitability of recommendations if the earnings forecast adjustments and ratings were consistent. They saw consistency "if both the recommendation and the forecast issued on the same day are above or below their prevailing consensus" (Brown and Huang, 2013 p.452). The findings of the study provided further support that recommendations excelled in investment performance terms where there was uniformity between earnings adjustments and recommendation level. The recommendation-forecast consistency at the core of their study could be used as an *ex ante* signal to investors allowing them to assess the appropriate reaction to analyst research reports.

Martinez (2011) looked in a different way at how earnings were used by analysts in the construction of their recommendations. He considered that any earnings forecast had, embedded within it, public and private information. In their deliberations when developing a stock recommendation analysts need to weight these elements. Martinez's (2011) contention was that mis-weighting of this information would lead to recommendations that produce lower abnormal returns than their peers who do not mis-weight. The mis-weighting is manifest in analysts overweighting private information. Martinez (2011) produced evidence that analysts who have a history of exaggeration of weights are destined to repeat this.

Loh and Mian (2006) provided empirical evidence that those analysts producing more accurate forecasts also produce more profitable stock recommendations. The importance of this finding is that in the information processing phase of the recommendation decision, analysts spend significant time undertaking an analysis of earnings, and so Loh and Mian's (2006) study appears to show that they are rewarded for their efforts in producing more accurate earnings forecasts.

Kecske et al (2017) proposed an approach that discriminates between recommendation changes driven by a contemporaneous change in earnings forecasts, and those recommendation changes due to changes in other model inputs (for example, discount rates or growth rates). They found that earnings-based recommendation changes had a greater initial price reaction than their non-earnings based peers. This amounted to 1.3% (-2.8%) for upgrades (downgrades). The changes are illustrated in Figure 2.3. Note the relatively poor performance of both upgrades and downgrades without any earnings adjustment. Earnings-based recommendation changes generated superior risk-adjusted returns of 3% per month. The rationale Kecske et al (2017) put forward for their results was that earnings changes represented a more specific, verifiable and shorter time horizon basis for a recommendation change. This contrasts with a recommendation that is driven by, for example, a change in an input, such as a chosen discount rate. They argued that earnings-driven ratings changes were less affected by "cognitive and incentive biases" (Kecske et al, 2017, p.1856) and hence represented a more reliable, concrete and, ultimately, informative basis for a recommendation decision.

**FIGURE 2.3. IMPACT OF EARNINGS AND
NON-EARNINGS BASED RATING CHANGES ¹⁴**



There is a small but significant stream of literature that examines non-quantitative signals in reports that revise recommendations. These studies use the textual content of research reports to assess whether there are interesting signals embedded therein. Huang, Zang and Rong (2014, p.2152) explain the nature of the textual component of analyst reports:

“This textual analysis is an important component of the report; at an average of 7.7 pages in our sample, it constitutes the main body of a report and covers a wide range of topics, such as the company’s recent financial performance, business strategies, competitive position within the industry, risk exposure, and the effectiveness of its management.”

This provides another lever or tool the analyst can use to convey information outside the limits of a particular rating decision. The most comprehensive was the study undertaken by Huang et al (2014) where they examined the text of 363,952 analyst reports using a Bayes machine learning approach. Their main finding was that the textual discussions in analysts’ reports provided information beyond the quantitative measures contemporaneously released, based on stock market reaction. They found a stronger reaction to negative news where investors

¹⁴ Kecskes et al (2017)

attached more than twice the weight in comparison to positive text in analysts' reports. As part of their study, Huang et al (2014) developed a textual signal and, on a standalone basis, a one standard deviation increase in the textual measure of favourableness, produced a 41 bps incremental abnormal return. In addition, the market reacted more intensely where the textual opinion was consistent with the quantitative measures. Twedt and Rees (2012) focussed more on the detail and tone of financial analyst reports. Their main finding was that one element of report detail, namely report complexity, caused the market to react more strongly to the analyst's stock recommendation. One weakness of this study was the use of initiation reports only. Such reports are different in many aspects to ongoing coverage reports as they are generally much longer and have a larger 'educational' component.

Asquith, Mikhail and Au (2005) examined entire research reports from leading analysts using a cataloguing system for analyst justifications and assessed the reaction to their release. They found that including the justifications factor reduced the importance of earnings forecasts and recommendation revisions. Others have looked in more detail at the role of different types of text. Another study by Caylor, Cecchini and Winchel (2017) examined whether the text in analysts' reports allows investors to discriminate between 'good' and 'bad' buy recommendations by the development of a text signal. The findings suggested that some research reports were backed up by careful reasoning and processes and others are not. This facilitated a text signal built around historical financial and nonfinancial performance measures which produced economically significant results.

Two other studies combined other information with recommendations. The first, Huang, Majutaba and Sankaraguruswamy (2009) looked at whether integrating the target price into an investment strategy around recommendations could add value. Huang et al (2009) suggested that there were reasons to consider target prices distinct and unique from recommendations. For example, whereas target prices were a continuous variable, recommendations were designated by discrete and binary guidelines as to what constitutes a buy, sell or hold. A target price might allow a distinction to be made between a high conviction buy and a marginal buy. Huang et al (2009) showed that a strategy involving buying (shorting) the shares with the most positive (negative) revisions in both consensus recommendations and target prices outperformed one that employed one output, recommendation or target price, in isolation.

Finally, Hobbs Kovacs and Sharma (2012) found that those analysts who revised their recommendations most frequently, produced superior returns. The outperformance persisted across both upgrades and downgrades and in the shorter term. Furthermore, they state that:

“Their higher abnormal returns do not appear to be a result of simply having made more revisions. Our results are consistent with the hypothesis that at least part of the superior profitability of frequently revising analysts could be attributed to their superior skill in uncovering private information”.

(Hobbs et al, 2014, p.108)

2.5.4 Type of analyst and reaction to recommendation changes

Within the literature, characteristics of the analyst making the recommendation decision can be examined in order to ascertain any link to cross-sectional variation in performance. There are two main factors studied. The first is the type of house the analyst works for ; an investment bank or an independent broker. Investment banks have embedded within them conflicts of interest and these are addressed in Section 2.6 below. The second factor is the reputation of the analyst measured by either historic performance of recommendations or, more commonly, their performance in high-profile external ranking processes (such as the Institutional Investor all-star ranking).

One of the first papers to look specifically at whether an external designation has any impact on the quality of the recommendation was Desai, Bing and Singh (2000). They examined the link between the results of a Wall Street Journal annual analysts’ ranking survey and the performance of analysts’ recommendations. They found clear evidence that, once industry type and company size was appropriately controlled for, stocks recommended by the star analysts outperformed. Li (2005) used a different approach to assess analyst quality and embedded a comparison between groups of analysts. Analysts were classified into ‘above median’ and ‘below median’ risk-adjusted performers based on their history of recommendation success. The study found that the ‘above median’ group’s performance superiority persisted and delivered significant returns even after adjusting for costs and trading delays. Li (2005) found that past winners exhibited this performance persistence in subsequent periods for buy recommendations, though much less so for sell recommendations. A more recent study by Fang and Yashuda (2014) also embedded a star versus non-star comparison. The designation in this case was based on whether analysts were part of the All-American (AA) team. Fang and Yashuda (2014) found clear evidence that the AA analysts buy and sell portfolio performance exceeded that of non-AA by up to 60 bps per month. Interestingly this outperformance starts before the official designation point and extends after this date. Fang and Yashuda (2014) dismissed the view that such outperformance can be explained away by markets overreacting to star AA analysts’ recommendations and the suggestion is made that the outperformance, at least in part, captures superior skills.

Loh and Stulz (2011) raised the bar for what might be designated an influential recommendation. They required the stock call to have a material and distinct impact on the company's shares to be classified as 'influential'. They produced evidence that only 12% of recommendation changes meet their definition. Rating changes are more likely to result in being influential if they are:

“from leader, star, previously influential analysts, issued away from consensus, accompanied by earnings forecasts, and issued on growth, small, high institutional ownership, or high forecast dispersion firms.”

(Loh and Stulz, 2011)

2.5.5 What have we learned from this section?

This section has covered four different areas. The first and longest section examined whether analysts' stock calls carry any information about future stock prices. The established approach in the mainstream literature was to measure such effects through observing abnormal returns. There is a convincing body of work that indicates analysts' stock recommendations do indeed impact stock prices with the potential for generating abnormal returns (see for example, Womack, 1996; Stickel, 1995; Francis and Soffler, 1997; Barber et al, 2001; Ryan and Taffler, 2006 and Kecskes et al, 2017). The reaction to sell ratings, which are much rarer, was greater than for buys. Since Womack's seminal paper (Womack, 1996) there has also been an acceptance of a share price drift after a rating decision. In other words, the share price movements are not immediate, and the effect continues for a period of time. Recent evidence has challenged whether, in a world of low transaction costs and high frequency trading, such drifts have now been eliminated (Altinkilic et al, 2016).

The second issue is whether investors can take advantage of analysts' calls. The outcome suggested they could, however, it was acknowledged that the required level of trading activity and cost made it a challenge to do this profitably (for example, Barber et al, 2001). The next section looked at the relationship between stock recommendations and the status of the analyst. It found evidence that higher ranked analysts outperform (for example, Fang and Yashuda, 2014). A further section investigated whether the combination of other data alongside the recommendation could help discriminate between stock recommendations. Text signals, measures of conviction and earnings adjustments in line with the recommendation all improved the investment advice in the stock recommendation. The ability of an analyst to convey messages without an explicit recommendation change is an important skill, and this is explored in more depth in Chapter 5.

2.6 HOW DO CONFLICTS OF INTEREST AND RELATED BIASES AFFECT THE PRACTICES OF ANALYSTS?

The extensive range of issues and research papers explored in the previous sections with regard to the informativeness of sell-side analyst research is persuasive. There remains a concern as to whether reliance can be placed on their stock recommendations given the conflicts of interest intrinsic in their work and worries about their independence (Groysberg and Healy, 2013). What are the sources of these conflicts? Predominantly they emerge from interactions with critical social actors in the field. These actors are investment bankers with their desire to win mandates, company management with whom analysts are under pressure to sustain positive relationships and lastly, clients both to earn commissions and garner broker votes. High profile examples of analysts earning large incentive awards, for what appeared to be self-serving investment banking work, reached their peak around 2001 and led to widespread concern about the work of the sell-side (Newsome, 2005). New stringent regulations were introduced to combat perceived malpractices (considered further in Section 2.7 below). Inspired no doubt by the importance and profile of the issue, a wide-ranging and substantial body of literature on conflicts has developed. A useful structure to synthesise these studies is to classify them according to the agents in context involved. The challenges to independence are embedded in the diverse relationships research analysts are required to have with investment banking, institutional clients, corporates, and lastly, other analysts.

2.6.1 Investment banking relationships

The area that has been of most interest to researchers when examining conflicts has been the relationship with investment banking. Most, but not all, analysts work in investment banks. These banks provide a wide range of services to corporates, some of which will be the very companies under analyst coverage. These analysts are in a position of tremendous pressure to issue, for example, buy recommendations and avoid sell recommendations (Groysberg and Healy, 2013).

A key role of investment banks is to raise money for their corporate clients. It is “practically impossible” to raise funds without a brokerage operation staffed by publishing analysts (Newsome, 2005, p.452). Analysts working in independent research houses with no investment banking services do not have that same conflict, although they do face other conflicts such as those relating to clients and corporates (Groysberg and Healy, 2013). Many of the research papers in this area exploit this natural segmentation between affiliated analysts (employed in investment banks) and unaffiliated analysts (those employed in independent houses). In one of the first comprehensive studies of its type, Dugar and Nathan (1995) found evidence that analysts employed in investment banks were more positive and optimistic than

those employed elsewhere. However, crucially, when they examined stock market returns and accuracy of earnings forecasts, there was no statistically significant difference. Barber et al, (2007) found that between February 1996 and June 2003 the buy recommendations of analysts working at independent research houses, without investment banking business, outperformed those employed at investment banks by almost 8% on an annualised basis. Two interesting aspects to this underperformance are highlighted in the study. First, the underperformance is particularly acute for recommendations on firms that recently conducted equity offerings. Secondly, most of the underperformance happened in the bear market segment of the period examined in the study. This suggested a reluctance to downgrade may have been the cause. Although the period examined was relatively narrow, and coincided with both a bull and bear market, it does appear to justify the concern expressed by regulators and others that biases are present in equity research offerings from the sell-side.

Other evidence of the investment banking relationships includes Agrawal and Chen (2008) who suggest that there is a positive relationship between conflicts and stock recommendation optimism. However, they also found that investors adjust for these conflicts. Dechow, Hutton and Sloan (2000) focussed on growth forecasts around equity offerings, and found a positive relationship between the fee paid to the affiliated analysts' employer and growth forecast optimism. In turn, post offer underperformance was most pronounced for those stocks with the most optimistic growth forecasts made by affiliated analysts. Finally, on optimism, Cowen, Groysberg and Healy (2006) found that firms who funded research through underwriting and trading (for example, bulge bracket investment banks) were actually less optimistic than brokerages where funding would come from trading alone.

Lin and McNichols (1998) examined whether senior underwriting relationships for equity issuances might compromise the stock recommendations and forecasts of affiliated analysts. Unaffiliated analysts were again used as the control group for this exercise. They found that affiliated analysts were much more optimistic on recommendations and growth forecasts, although this did not extend to earnings forecasts. In addition, although affiliated hold stock recommendations at the announcement point did underperform, post announcement returns did not differ significantly between the two groups. In other words, investors would not lose out by following the affiliated analysts' stock recommendations. The work on underwriting relationships has also been extended to IPOs. Michealy and Womack (1999) found evidence of significant bias in IPO underwriter stock recommendations in comparison to those from analysts not involved in the IPO. Buy recommendations of affiliated analysts underperformed both at the time of, and subsequent to, the IPO. Further, and more recent IPO related evidence arose in Bessler and Stanzel's (2009) study of German IPOs between 1997 and 2004. They found evidence of bias in the stock recommendations of lead underwriting analysts resulting

in long run underperformance for investors who might follow their advice. The evidence also extended to superior earnings forecast accuracy from unaffiliated analysts.

O'Brien, McNichols and Lin (2005) examined a range of issues around the activities of analysts after an equity offering. The speed of upgrades (quicker for affiliated analysts) and downgrades (slower for affiliated analysts) provided further evidence of bias. Unsurprisingly, unaffiliated analysts were also more likely to drop coverage.

More recent evidence emerged from Kerl and Arand (2015) who hand collected data about specific conflicts from descriptive disclosures in analysts' reports. These disclosures arose from changes in regulation that required their inclusion on published reports. The authors focused on one of the leading investment banks which was part of the global settlement (see Section 2.7 below). They found that the aggregate number of 'business ties' with companies covered was positively associated with both recommendations and target prices. Despite public disclosure of these conflicts, Kerl and Arand (2015) found no evidence that investors discounted the most conflicted reports.

2.6.2 Institutional investors

In choosing to trade stocks with a particular firm, institutional investors are the source of broker commissions, an important revenue source for investment banks. The allocation of commissions is typically based on the investor's assessment of the quality of service (including analyst services) received from brokers (Groysberg and Healy, 2013). Therefore, analysts have significant incentives to cultivate a strong relationship with clients as their opinions play an important role in the assessment of an analysts' performance which in turn leads to revenue opportunities for the bank. Clients channel their feedback in the form of votes in external surveys, such as the Institutional Investor poll, and in periodic broker votes sent to analysts' employers (Groysberg and Healy, 2013). Therefore, analysts may bias their behaviour to maximise the revenue, and so a conflict of interest prevails.

For example, Jackson (2005) identified that analysts who were optimistic generated higher levels of commission for their firms. A similar pattern was seen with reputation in that the more reputable an analyst was, the higher the commissions generated by their employing firm. Reputations are built up over time, so the analyst has to choose between the shorter-term benefits to revenues of optimism, versus a longer objective of reputation cultivation, as Jackson (2005, p.706) put it succinctly:

"The analyst trades off an expected loss in reputation against the short-term benefit of higher trading commissions."

This presents a quandary for the analyst not unlike the balancing act referred to earlier in the discussion on investment banking relationships.

One of the clearest sources of potential pressure that might be applied to analysts by institutional clients would be to encourage them to issue positive stock recommendations on stocks in which a client has a position (Gu, Li and Yang, 2013). In their study, Gu et al (2013) exploited a unique dataset which identified commissions allocated by the buy-side to sell-side research providers. The key finding was that, for those brokerages that received a commission allocation, their analysts were more positive on the stock holdings of the relevant client. The bigger the allocation, the stronger the relationship. In a similar study Firth et al (2013) interrogated a database that contained information about the 'business relations' between brokerage firms (e.g. investment banks) and investment funds. By business relations, they were referring to the level of commissions a brokerage firm received from a fund. They found that for those firms with the strongest business ties, their analysts consistently have higher recommendations on the stocks held by the fund. This positivity increased with the weight of the investment by the fund. The influence further extended to a reluctance to downgrade. They also found that the recommendations of analysts under pressure from clients produced significantly lower abnormal returns compared to analysts not subject to client pressures.

Research has also been undertaken on those clients that have closer relationships with a particular research house. For example, most funds have a brokerage firm that provides trading and support services to the fund. Arguably, in these circumstances, the relationship is closer and so the potential for conflicts of interest and consequent bias is heightened. Mola and Guidolin (2009) examined stock recommendations over an eleven-year period, beginning in 1995, with a particular focus on funds that were affiliated with the analysts' firm. They found that "...analysts are significantly optimistic about stocks that are held by affiliated mutual funds" (Mola and Guidolin, 2009, p.135).

Jordan, Liu and Wu (2012) looked at how the investment departments of investment banks used the research from their firm's own analysts. They found that, especially for smaller companies and those with a low level of analyst following, these investors responded more strongly to the recommendations of their own analysts. In the words of Jordan et al (2012, p.1452) these investors "eat their own cooking."

2.6.3 Corporations

It has been long established that analysts are vulnerable to corporate influence as they attempt to sustain positive relationships with company management (Francis and Philbrick, 1993). The importance of access to management to enhance and maintain important

information channels and for corporate access is widely recognised (for example, Levine, 2017). Das, Levine and Sivaramakrishnan (1998) argued that analysts will use optimistic levers to focus access on those firms most difficult to forecast. So, for example, if a firm's earnings are difficult to forecast, then the analyst will be structurally more optimistic in order to maintain the precious information channels needed for the challenging forecasting task. It remains important to appreciate that management access in general is seen as a key information source (Brown et al, 2015).

Chen and Matsumoto (2006) provided evidence that analysts issuing more favourable recommendations, and consequently having more opportunities for management access, experienced a greater increase in forecast accuracy than those issuing less favourable recommendations. The results are consistent with analysts receiving more management information through enhanced access.

Green et al (2014) looked at whether conferences provide an opportunity for analysts to gain an informational advantage. Competitor analysts to the main sponsor are generally prohibited from attending such events and so there is a select, quasi-private dimension to such events. Green et al (2014) found a significant 'conference effect' with recommendation changes having a large market impact in the days after the event. Although not as significant, there was a general ongoing increase in impact for analysts with a conference hosting relationship with a company even outside conference season. This suggests access still retains a value despite Regulation Fair Disclosure (see Section 2.7 below).

In contrast to a sponsored conference, where other analysts are not invited, earnings conference calls typically involve all analysts covering the company. This creates a different dynamic in that the information is conveyed by 'public' disclosure. Analysts invited to ask a question may receive valuable private signals by virtue of the exchange around their question (Mayew, 2008). In his study, Mayew (2008) suggested that managers realised they had the discretion to allocate questions to those analysts more favourably disposed to the company. The study showed that the chance of an analyst asking a question on an earnings conference call increased with the favourableness of the analyst's extant stock recommendation. Downgrades and less favourable ratings in general resulted in decreased access to question asking opportunities.

Brown et al (2015) looked at the importance of stock recommendations in terms of analyst compensation. However, just as interesting was their finding that issuing more negative stock recommendations and earnings forecasts than the consensus was associated with an increase in the credibility of analysts. This indirectly plays to the theme of analysts being highly attuned to the risks of damaging relationships with corporates by adopting a negative

stance unless they have high levels of conviction in that view. The research provides fresh evidence of the inherent conflict at play; issuing forecasts and stock recommendations below consensus can on the one hand increase credibility and enhance reputation but, on the other, damage relationships with corporates (Brown et al, 2015).

Further recent evidence about analyst conference calls also supports the idea that analysts will challenge management at appropriate times and are aware of their vulnerability to bias. Salzedo and Young and El-Haj (2018) examined analyst reports and conference call questions to assess analyst reaction and found:

“analysts’ notes and conference call questions display material levels of rigour and objectivity when earnings news is unexpectedly positive, and that these characteristics are more pronounced in response to unexpectedly poor earnings news.”

(Salzedo et al, 2018, p.5)

These recent papers challenge the orthodoxy that analysts are inherently biased to a great degree. Analysts will consider the merits of different approaches very carefully as they balance their long-term reputation with other issues such as privileged access.

2.6.4 Peer analysts

Central to classic economic theory is that ‘rationally formed expectations’ drive decisions (Scharfstein and Stein, 1990, p.465). Peer analysts represent a potential source of bias if, instead of being independent of mind in their analysis of information, analysts are influenced by the work of their peers. Such a phenomenon is referred to as ‘herding’:

“The term ‘herding’ refers broadly to the tendency of many different agents, who make their own individual decisions, to take similar actions at roughly the same time. Portfolio managers, stock analysts, individual investors, and corporate managers are among the many who have been portrayed as having been afflicted by herding instincts.”

(Jegadeesh and Kim, 2010, p.901)

Early work by Trueman (1994) revealed that information differentials between analysts cannot explain the propensity of analysts to release an earnings forecast which is close to that already issued by a peer. Scharfstein (1990) suggested that herding can be a rational response to those who are vulnerable to being judged and wish to “share the blame” if things go wrong.

Welch (2000) argued that one reason for a tendency to take similar actions might well be because analysts received very similar information. This is particularly the case given regulatory tightening, via Regulation Fair Disclosure, around information flows from

companies. The other reason is imitation to enhance reputation. Analysts may attempt to mimic leading analysts as a form of defence. If these decisions turn out to be wrong, the analyst can reference that the highly reputable analyst undertook similar steps. There is often little incentive for an analyst to pursue a contrarian path to the consensus. Welch (2000, p.393) referred to the latter reason as “direct mutual imitation” and contrasted it with herding driven by processing of similar information. Welch (2000) employed a statistical measure to provide empirical evidence of herding and found that a revision by an analyst had an effect on the next two revisions by other analysts and that such an effect is stronger when the “short-run ex-post stock returns are accurately predicted by the revision and when the most recent revision has occurred more recently.” (Welch, 2000, p.393). Adjustments towards consensus have a positive influence on subsequent recommendation revisions by analysts and this positive relationship is not impacted by its accuracy in predicting future stock returns.

Jegadeesh and Kim (2010) found that stock price reactions were stronger when a recommendation change diverged significantly from consensus than when it closely approximated to it. This indicates that the market recognises herding and so reacts to analysis outside of its influence. The study identified that analysts are more likely to herd if employed in large banks, if they are covering stocks with tightly bunched recommendation dispersion and they are analysts whose historic record indicates that they revise less often. In a Chinese context, Lin, Jang and Tsang (2013) found stronger evidence of herding around sell recommendations more than buys, especially in bear markets.

In more recent evidence, Xue (2017) examined the herding phenomenon between independent and affiliated analysts. In the model used in this study, Xue (2017) sees affiliated analysts as having to manage conflicts of interest, but on the other hand having an informational advantage due to their proximity to the covered company. On the other hand, the independent analyst is less subject to bias. Therefore, “herding and disciplining not only coexist, but also mutually reinforce each other.” (Xue (2017, p.243) .

2.6.5 What have we learned from this section?

The conflicts facing analysts were analysed in this section through the lens of the four key agent clusters. Conflicts with corporates stem from the informational and access needs that analysts have on the one hand, and the desire corporates have to avoid negative news flow and sell ratings on the other. Analysts who are more supportive of companies gain superior access (Chen and Matsumoto, 2006) although there was also evidence that such conflicts are sometimes resisted by analysts, for example, when a company disappoints on earnings (Salezdo et al, 2018). Investment banking conflicts of interest gained significant attention in the literature. Affiliated analysts were found to be more optimistic in a number of studies (for

example, Lin and McNichols, 1998). This extended to a rare European study on IPOs (Bessler and Stanzel, 2009). When considering conflicts and investment banking relationships, there are two plausible interpretations. The first appears to be accepted wisdom to some degree; if analysts involved in investment banking transactions are more optimistic than those who are not, then it is down to bias. The other interpretation is that the analysts who are involved in deals are typically the ones who are most positive about that type of business or subsector. Companies give mandates to brokers with a history of positivity towards their business. It does not seem unreasonable to suggest that it is the combination of the two that drives the results in the literature (Groysberg and Healy, 2013).

Conflict with investors emerges from the broker vote as a key artefact in the analyst world. To sustain positive relationships analysts might be tempted to publish favourable ratings on those stocks held in client portfolios and there is evidence of this occurring (Gu et al, 2013).

Finally, herding around the stock recommendations of peer analysts is also a potential source of distortion and bias. Welch (2000) developed a statistical herding measure to show the extent of the attraction an analyst had to what others had previously done. Market participants are well aware of the herding bias and react more strongly to recommendation changes that diverge from consensus.

Finally, it is worth referring to some recent research by Pacelli (2018). He looked at the link between culture at brokers and analyst performance. He defined culture as 'weak' or 'strong' based on the number of Financial Regulatory Authority (FINRA) violations. His findings suggested that such violations are associated with lower quality research (less informative and less accurate), higher commissions and more client conferences. This suggests that there are still important institutional impacts on analysts with regard to conflicts of interest.

2.7 HOW DOES A CHANGING REGULATORY ENVIRONMENT AFFECT THE PRACTICES OF ANALYSTS AND THEIR ROLE IN CAPITAL MARKETS?

Regulation and regulatory developments weigh heavily over the sell-side. There have been a number of significant regulatory changes over the last two decades which have presented challenges for the way in which analysts operate. As this study progresses into the empirical fieldwork in Chapter 5, it will become clear that regulation is highly important to an understanding of analyst practices. Over a decade ago, Fogarty and Rogers (2005 p.352) stated that "Further research on analysts must also take into account the shifting regulatory environment" and its importance was recently reiterated by Clatworthy and Lee (2018, p. 3):

"Regulatory, economic, political and technological forces are dramatically shaping the world of the financial analyst and other capital market participants."

Although the regulations addressed in the studies that follow have, in the main, been focused on the US, the impact is felt in Europe and Asia as well. This is because most analysts are employed in large multinational banks with operations in the US. In addition, other regulators, especially in Europe, have tended to introduce similar regulations over time. Hence, the impact of these regulations has been keenly felt by analysts irrespective of their specific location. In Europe, the very recent implementation of MiFid II, explained later in this chapter, presents one of the most significant challenges that the sell-side has faced in many decades.

Archival research provides evidence that regulation is working in the US, but there is little or no knowledge about how it is achieving this outcome.

In the lead up to the market highs of 2000, sell-side analysts were accused of engaging in "questionable and objectionable behaviour" (Boni and Womack, 2003, p.25). In the light of these concerns, there was a substantial regulatory response ranging from the Sarbanes-Oxley Act, new regulations issued by the SEC, large legal settlements, and structural reforms within research departments (Eames, Glover and Kennedy, 2006). The regulatory change also spread across Europe. Table A.1 in Appendix 2 lists some of the major legislative pieces enacted over the last fifteen years. The global settlement was arguably the catalyst for many of these other developments. It involved sanctioning ten of the largest investment banks including a \$1.4bn settlement. In addition to this payment, investment banks were restructured such that:

- Research departments were required to be physically separated from investment banking;
- Analyst compensation was to be determined by research management with no involvement of investment banking;
- Analyst compensation could not be based directly or indirectly on investment banking revenues.

Many of the structural changes brought in by the global settlement and related legislation are now viewed as normal practice across the industry.

A number of papers have examined aspects of these various legislative changes. Kadan et al (2009) examined stock recommendations before and after various changes in regulation. Arguably their most important finding was that the stock price response to recommendations fell significantly in the period after the regulatory changes. More particularly, the reaction was

greatest for optimistic stock calls, but these happened less frequently. Wu et al (2017) examined analyst optimism for firms involved in M&A advisory for a covered firm. They then compared this with the optimism of those analysts at unaffiliated firms (no advisory role for the company in question). These comparisons were extended to looking at affiliated and unaffiliated analysts across countries and in the pre and post-global settlement. They found that where optimism was measured over a 180-day period surrounding the M&A announcement, there was a significantly greater reduction in US affiliated analyst optimism. Although some of their other results were somewhat mixed, this does appear to support the main thrust of the settlement's objectives.

In effect, the settlement created two sets of investment firms; sanctioned firms who were subject to the details of the settlement and non-sanctioned firms who were not. Barber et al (2007), albeit in a narrow window, showed that the underperformance of banks versus independent brokers applied to both sanctioned and non-sanctioned firms. A more recent study by Corwin et al (2017) examined the impact of this settlement on analyst recommendations and, in particular, the impact on affiliation bias at sanctioned firms versus non-sanctioned firms. Their findings presented a stark dichotomy between sanctioned and non-sanctioned banks:

"While we find some evidence of affiliation bias at sanctioned banks following the settlement, the bias is reduced by as much as 81% relative to the pre-settlement period. In contrast, affiliated analysts at non-sanctioned banks continue to exhibit strong bias after the settlement."

(Corwin et al, 2017, p. 615)

Eames et al (2006) questioned whether regulation can ever eliminate bias. They suggested that archival studies of bias cannot hope to distinguish between, on the one hand, intentional bias as a result of economic incentives and, on the other, unintentional cognitive biases. They considered that an analyst with, say, a buy recommendation brings this 'frame' to the task of processing new information. Their findings are consistent with analysts 'framing', in other words, they seek out information within the frame of their recommendation. In the presence of this framing, Eames et al (2006) concluded that regulation can never truly eliminate bias from analysts' work.

Many of the regulatory changes were introduced in a compressed period of time shortly after 2002. A number of papers attempted to isolate the impact of an individual regulatory change, but often other changes were either implemented already or were widely discussed and anticipated. Regulation Fair Disclosure which, as already outlined, addressed the concern that analysts were getting unfair advantages through privileged access to management information in private meetings. The removal of this might have eliminated a critical source of

competitive advantage for some analysts who relied on their deep corporate relationships rather than, for example, superior analytical skills. Mohanram and Sunder (2006) found that analysts who appeared to have favourable relations with firms before the regulatory change could not sustain their forecast superiority post Regulation Financial Disclosure. Agrawal, Chadha and Chen (2006) also examined the impact of this regulation on earnings forecasts. Again, their findings suggested that analysts missed the information flow from companies given that forecasts became less accurate and more widely dispersed after its introduction.

Bagnoli, Watts and Zhang (2008) looked at whether the introduction of fair disclosure would impact the ability of all leading analysts to maintain a competitive advantage. The assumption was that leading analysts, as measured by external surveys, would have better access on average than other analysts. During the implementation of Regulation Fair Disclosure, there was a significant increase in the turnover of leading analyst in external surveys as a higher number of analysts fell in the rankings. The suggestion is that the restrictions on information flow as a result of the change contributed in some way to their diminished competitive standing. This period of higher turnover was over within 2 years, suggesting that the 'new' leading analysts had developed a competitive edge that they could sustain. Gintschel and Markov (2004) found that post Regulation Financial Disclosure, the price impact of analyst recommendation changes fell by 28%. This was consistent with the removal of a key strength of certain analysts; access to management information. Therefore, their recommendations become less important which suggests that the regulation was effective.

NASD 2711 introduced a range of measures to enhance analyst independence. Chen and Chen (2009) found that subsequent to the introduction of these measures a stronger relationship developed between analysts' estimations of intrinsic value and their stock recommendations and, contemporaneously, a weaker relationship was observed between recommendations and conflicts. This suggested that analysts were being driven more by fundamental analytical work rather than conflicts.

One valid criticism of the literature is the paucity of studies in a European context. One of the few papers is by Hofer and Oehler (2014), who examined various aspects of European regulation. They looked at the periods before and after these regulations to assess the impact they may have had on the bias of analysts' recommendations. The specific focus was around IPOs. Hofer and Oehler (2014) did not find a significant change in bias across the time periods before and after these regulatory changes. Therefore, despite implementing these legislative changes, bias remained unaffected. This, the authors argued, is evidence that the regulations have been ineffective. They suggested that investor protection needs to be extended into matters such as standardised analyst reporting and a deeper analysis of risks associated with an investment recommendation.

The most recent piece of legislation, MiFid II, was enacted on 1 January 2018. It was intended to introduce, inter alia, more rigour into the process by which the buy-side pays for research and in turn passes these costs to investors. Although too early to tell, there are a broad range of implications discussed in the financial media, which range from the return of the star analyst (Murphy, 2018), the restoration of prestige and status to the role (Augar, 2017), through to the death of the sell-side completely (Armstrong, 2018).

Stories of analysts' conflict and bias often lead to interest from the financial press and, understandably, this often results in politicians and regulators reacting with legislative-based initiatives. It is too early to see the ultimate impact of MiFid II, but it is highly likely to be a time of tumultuous change.

2.7.1 What have we learned from this section?

The importance of regulation to the practices of analysts has been introduced and will be developed as an ongoing theme throughout this thesis. The regulatory environment surrounding equity research has a number of important features. First, it has been an area of great change and increasing importance since the global settlement in 2003. The structures that were changed, such as the removal of investment banking's direct access to, and ability to incentivise, analysts, are now accepted as the norm. Within the literature, a clear 'regulatory effect' has been identified. For instance, the optimism of affiliated analysts has diminished significantly (Kadan et al, 2009) and the affiliation bias at sanctioned banks has been reduced by as much as 81% (Corwin et al, 2017). Lastly, the advantage some analysts had by way of privileged corporate access, which enabled them to be superior forecasters, was eliminated by regulatory change. Overall, studies of the sell-side need to reflect this transformed environment in order to fully understand analysts' practices and actions.

2.8 HOW DOES THE SOCIAL TERRAIN AFFECT THE WORK OF ANALYSTS?

The sociology of finance literature extends beyond the classic parameters of economics. It is an emergent and interdisciplinary field (Knorr-Cetina and Preda, 2012). The importance of the financial system to society in general means more research is required on the internal workings of the system, and the orientation and attitudes of the participants embedded therein (Knorr-Cetina and Preda, 2012, p.3). Fundamental to body of work is the notion that "markets are social and calculation is social" (Beunza and Gerund, 2007, p.33). It is within this emergent field that the search for relevant research on analysts is undertaken.

2.8.1 Social perspectives of the analyst role

Leins (2018) tackled the question of why the financial analyst role actually exists. The efficient market hypothesis, central to neo-classical finance and economics, would suggest that the work of analysis and the recommendation of stocks is futile as information is instantly impounded into stock prices. This precludes an advantage that might be gained from superior data analytics. Leins (2018, p.5) argued that in the face of the “scepticism of economic theory” analysts maintain their position in three ways. The first is that they present themselves as experts in their specific field, second, they produce high profile forecasts and recommendations, and lastly, they provide a useful intermediary role for their employer institutions.

Continuing this high-level consideration of the analyst role, Beunza and Gerund (2007) wrote an influential piece which refined the conceptualisation of the analyst position. Previously analysts had been looked at as imitators of other analysts (for example, Rao, Greve and Davis, 2001; Scharfstein and Stein 1990) or as calculators (for example, Womack, 1996; Michaely and Womack, 1999). The introduction of more socially infused thinking had extended this to analysts as critics, reproducing the social order. For instance, Zuckerman (1999) saw that analysts’ coverage decisions, which are based around companies in specific sectors, reinforce the social order of corporate classification. If companies do not fit neatly into such categories, then they suffer a diminution in coverage which can affect their share price and liquidity. The work of Beunza and Gerund (2007) introduced the idea of calculative frames. These frames provided structure to guide analysts as they attach meaning and legitimacy to information.

2.8.2 Specific use of social theory on sell-side analyst work

The use of social theory to explore and enrich understanding of the practices of sell-side analysts, remains at a relatively immature stage with only a handful of papers published. Nonetheless, Institutional theory, Bourdesian field analysis as well as the sociology of accounting have all been utilised to some degree and what has been done illustrates the potential of the approach.

Fogarty and Rogers (2005) employed Institutional Theory to study financial analysts and suggested that analyst behaviour cannot be properly appreciated without a comprehensive understanding of the “social arrangements that embed their work” (Fogarty and Rogers, 2005, p.349). The focus of their study was on the content of analysts’ written reports viewed through a sociological lens. They criticised the thinking that decision making by analysts is a purely psychological phenomenon given that the social dimension, which is common to all, is “beyond individual discretion” (Fogarty & Rogers, 2005, p.350). Analysts are faced with a wide

range of social actors who will exert pressure and pull the analyst in different directions. In their research, Fogarty and Rogers examined four propositions. The first posited that the reliance analysts have on company management results in a pro-management tendency in their reports. The second, that the past will repeat itself. The third, that analysts will be considerably more influenced by good news rather than bad and, finally, analysts will comment favourably on future plans of management. Their evidence, from a content analysis of over 187 reports, provided support for all of these propositions. The findings in this research support the idea that analysts are overly optimistic, even if the restriction of data to analysts' reports alone limits the strength of the evidence. Furthermore, as we saw before, Jackson (2005) made the important point that analysts' concern for their reputation would limit the incentive to avoid negativity and sustain an overly optimistic message where it was no longer appropriate.

Imam & Spence (2016) applied a Bourdesian framework in a longitudinal qualitative study covering both buy and sell-side analysts. Their starting point was the apparent paradox that while evidence suggested analysts are biased, they still appeared to play an important role in capital markets. They concluded that although social capital is used to gain access to management it does not overwhelm technical capital. Indeed, how these two capitals overlap cannot be reduced to, on the one hand, stories embracing market efficiency and, on the other, sociologically based "dismissals of pure collusion with market participants" (Imam & Spence, 2016, p.243). There is no consideration of regulation in this study, probably as a result of the timing of the interviews, with the most recent interviews taking place over a decade ago.

Tan (2014) used sociological theory to examine how analysts developed expertise in a new domain, namely integrating corporate governance measures and analysis into their work. Through a comprehensive examination of analysts' research reports and building on theoretical insights from the literatures of the sociology of accounting, neo-institutionalism and economic calculation (ideas and devices), Tan explored the mechanisms by which this domain of expertise developed. Tan concluded that the expertise in this area of governance was "not given but was gradually constructed" over time through "certain ideas, discourses, aspirations, arguments and tools" (Tan, 2014 p.382).

In more recent and, as of yet, unpublished work, Abhayawansa et al (2017, p.26) found that sell-side "analyst work is characterised by significant and complicated relational expertise". They argued persuasively that analysts require both social skill and technical expertise to be successful. They rejected the pre-eminence given to written reports and share price formation in the mainstream literature. They did not see this as representative of how analysts' work contributes to client investment processes. Instead, they suggested that reports and other

outputs played a role as a promotional or legitimacy device to help analysts gain access to clients:

“...reports are not used primarily as a way to communicate value-relevant information, but more as a promotion device, written with the preferences of potential clients in mind and aimed at persuading such clients to grant the sell-side analysts a meeting.”

Abhayawansa et al (2017, p.29)

The most recent published study by Chen et al (2018) addressed analysts' information intermediation in the specific context of bank analysts examining the intangibles of those financial institutions in their work. This interview-based study developed an intermediation model to help formulate a more complete understanding of how information changes through the analyst's research, analysis and reporting stages. It emphasised the importance of social contexts and knowledge in understanding this process. The behaviour of analysts was viewed through a 'Bourdesian capital' lens, whereby relative information power determined the actions of analysts, but this is "counterbalanced by analysts' technical capital and symbolic capital, such as ranking among key FM clients" (Chen et al, 2018).¹⁵ Again, the emphasis in the study is that social context matters and that establishing what analysts actually do provides a more complete picture of capital market participants.

Such limited sociologically-based literature means that there are substantial gaps remaining. In particular, in this study, the focus is primarily on the interaction between external and internal structures and how this is implicated in analysts' practices. The study looks at a specific decision – the rating decision – and how this has changed in light of matters such as regulation, analyst experience and client demands.

2.9 CONCLUSION

The research on sell-side analysts is extensive, multifaceted and complex. It has progressed through a series of advances as data and methodological developments allowed more sophisticated analysis. What can be taken from this body of knowledge into the specific study in this thesis? There are four especially relevant areas with a direct bearing.

The first is that rating decisions are important and have real world impact. The second, that conflicts of interest, embodied in relationships with important agents in context, are critical to understanding the practices of analysts. Thirdly, regulation has changed and will continue to

¹⁵ This paper has only become available online on August 24th, 2018 and appears as a proofed copy with no page numbers or other publication data available as yet.

change the activities of analysts. Finally, analysts are social actors whose actions attempt to sustain and develop relationships.

These perspectives offer the researcher ample encouragement to approach the study of analysts through a social lens. Concordant with such an approach is the employment of theory suitable to the task. In Chapter 3, the assertion is made that strong structuration theory is an appropriate theoretical framework to make this empirical contribution.

CHAPTER 3.
THEORETICAL FOUNDATIONS

3.1 INTRODUCTION

Social theory is concerned with the relationship between the individual and society as the central sociological problem (Archer, 1995, p.1). The objective of using social theory in research is to systematise “knowledge about relationships in society, and the place of the individual in society” (Jack, 2017a, p.11). It is this concern with the individual and their relationships that makes this approach particularly suited to the ‘analyst as social actor’ research question in this thesis. This chapter sets out the theoretical framework of the research study, which, as established in Chapter 1, is strong structuration theory. In applying this theory the study draws mainly on the work of Stones (2005) although, somewhat inevitably, also on aspects of Giddens’ (1984) original exposition of structuration theory.

The chapter begins by outlining the attraction of structuration theory given the full range of alternative social theories that might have been suitable for the research question, and exploring the original work of Giddens which provided the foundation for the theoretical developments that followed. The criticisms of structuration theory are then considered as these lead directly to the enhancements proposed by Stones (2005) in his strong structuration theory project. The next section of the chapter addresses each component of the quadripartite structure, the central framework of strong structuration theory. Having explained these theories in some detail, the final section considers the growing literature on using strong structuration theory in empirical research. It relates it specifically to the study in this thesis. The final section sets out some of the critiques of strong structuration theory before drawing the various theoretical threads together.

3.2 THE GENESIS OF STRUCTURATION THEORY

Despite a long and distinguished history of social theory development, there is no unifying social theory that governs and explains how society works. In other words, there is no consensus on any particular theory. Central to this is the perennial debate amongst social theorists; the objectivist-subjectivist dichotomy. Objectivism, typified by Parsonian functionalism, is a macro-sociological theory that privileges the systematic aspects of the social world. Actors are dominated by “systemic determinations or they disappear completely from the social scene” (Mouzelis, 2008, p.13). Namely, actors play a passive role, and the analysis of society is at the institutional level rather than at the level of social interaction; “actors are constantly rehearsing their roles, but the play never starts; the curtain never rises” (Mouzelis, 2008, p.14). Subjectivism, on the other hand, rejects the objectivist perspective and is the analysis of social life at a micro level, the level of agent interaction. Subjectivist theories view actors as agents, free-floating and uprooted from structural context (Stones, 2005, p.14).

The genesis of structuration theory lies in Giddens' response to the objectivism-subjectivism debate. He saw an absolutist adherence to either as a trap and that both schools of thought were "pernicious misconceptions" (Stones, 2005, p.13). He rejected the idea that either objectivist or subjectivist positions could explain society or usefully facilitate its analysis. In structuration theory, Giddens (1984) brought together these apparently irreconcilable points of origin. The theory proposes that there is an inherent interdependency between structures in society (for example, rules of language, forms of monetary exchange or expected norms) and human agency or action (essentially 'what people do'). Human action is made possible by social structures, but such action, in turn, sustains or alters the social structure itself. In other words, structure and agency are 'mutually constitutive' (Coad et al, 2015, p.156), forming a duality in which the structures become both the "medium and outcome" of social life (Giddens, 1984, p.25). The mediating feature of this approach is that it draws on structures and agency (i.e. objectivism and subjectivism) but defines them in such a way that the distance between them is eliminated in the duality of structure and agency, a core structuration concept considered further in this Chapter.

3.3 WHY STRONG STRUCTURATION THEORY?

Given the diversity of social theory available to draw upon, it is important to justify the particular theoretical choice in a study. For many interpretive research questions, a range of theoretical approaches would have the potential to yield interesting results, and it is rarely productive to consider one theory as universally superior to another. It cannot be asserted that a study would have been better or worse assuming a different theoretical stance, all that can be said is that it would have been *different* (Jack and Kholief, 2007b, p.213).

The crux of the argument for using strong structuration theory in this research study is that it represents a credible theory for interpretive research and is suitable for what Stones refers to as the "research problem at hand" (Jack and Kholief, 2007b, p.213; Stones and Jack, 2016, p.1146). Structuration theory is especially suited to dealing with questions that examine "What routines are in place, how people interact with each other, the distances between them and the nature of the institutions in place" (Jack, 2017a, p.51). Harris et al (2016, p. 1179) provides a comprehensive set of factors that might lead one to choose strong structuration theory. These include: the existence of complex organisational processes; agents drawing on rational, calculative tools shaped by rules/norms/politics; some agents being close and others more distant; and, lastly, some structures at play being formal, such as regulation, and others less formal and self-imposed, such as personal ethos. Almost all of these features are present in the world of sell-side analysts. The organisations which employ them are typically highly sophisticated and complex investment banking institutions. Tools, such as valuation models, are used extensively, and various agents in context have expectations about the form and

content of these models. The agents in context are widely dispersed, with some (for example, salespeople) close to the analyst in time-space and others (for example, investing clients) are dispersed throughout the world. Lastly, there is an extensive set of rules in the form of formal regulation, but also a wide variety of 'rules of the game' that agents can accept or reject based on dispositions and conjuncturally-specific knowledge.

Another attraction of strong structuration theory is the guidance to empirical query given by Stones (2005). This guidance appears not only in his original textbook, *Structuration Theory* (Stones, 2005), but also in his on-going engagement with the theory in subsequent research and commentary, workshops and interviews (see, for example, Stones and Tangsupvattana 2012; Stones 2014; Stones, 2015; Stones and Jack, 2016; Stones, Botterill, Lee and O'Reilly, 2018). In choosing to use strong structuration theory as the main theoretical framework, the study has to some degree rejected the use of other potentially fruitful theories. Following on from the earlier discussion, there is no suggestion that strong structuration theory is beyond criticism. However, it is argued that it is particularly suitable for the research question in this study.

Actor-Network Theory (ANT) is a distinct alternative to strong structuration theory for this type of field study. There are a number of reasons for preferring strong structuration theory in this case. First, is the assumption within ANT of equivalence between human actors and artefacts (for example, technological artefacts). This conflicts with the desire for this study to focus on gaining a deep understanding of the hermeneutics of the agents. ANT decentres human agents and "a researcher narrative is offered at the expense of any account which the 'natives' might have given" (Greenhalgh and Stones 2010, p.1288) and is also less concerned with agents' knowledgeability (Harris et al, 2016, p.1198). In choosing to employ strong structuration theory for this thesis, voice is given to the analysts in the field as they go about their work. This is motivated, at least in part, by their almost complete absence from current mainstream literature. In this study, their narratives and lived experience become the focal points. The centrality of human agents in strong structuration theory provides the appropriate platform for such endeavours.

Second, the study deliberately focuses on structures, on patterns of social conditioning and broader external factors that constrain the agency of analysts. ANT does not address such matters and indeed has difficulty dealing with the role of wider social factors. These are handled explicitly in some detail within the quadripartite framework of strong structuration theory. Other issues with ANT include the descriptive, rather than explanatory, nature of the evidence produced and the problem of the positioning of human and non-human actors, as discussed above (Creswell, Worth and Sheikh, 2011).

Institutional theory (Fogarty and Rogers, 2005), Bourdieu (Imam and Spence, 2016) and calculative routines (Tan, 2014) have all been used with some success in the small number of papers adopting a social perspective on analysts. This study does not argue that strong structuration theory would have been a better theory for these studies. Rather it embraces theoretical plurality, in the expectation that strong structuration theory would be added to this small body of research and make a useful contribution.

The particular application of strong structuration theory in this thesis responds to a call to apply it to more complex organisations (Feeney and Pierce, 2016). Also, the research design follows the recommendation by Harris et al (2016) to extend the focus of research beyond agents in focus to include agents in context. Furthermore, the study embraces a circular methodology and embeds theory into its research design as advocated by Makrygiannakis and Jack (2018).

3.4 GIDDENS AND STRUCTURATION THEORY

Structuration emerged from a range of concepts, assumptions and principles in social theory. Kilminster (1991, p.74) described the process as the theoretical synthesis by which Giddens combined these “elements in such a way that the recombinations produce a novel fusion” that then took on a unique character thereafter. Giddens (1991, p.201) himself referred to structuration theory as “an ontological framework for the study of human social activities”. In this instance, Giddens (1991) clarified that by ontology, he was referring to the nature of human action and its link to institutions. The actions of human agents are central to structuration, but importantly in balancing subjectivist and objectivist positions, it is the process of making history through action rather than the makers of history *per se* that Giddens privileged (Cohen, 1989, p.47).

Before proceeding to a discussion of the more detailed aspects of the theory, it is important to highlight two fundamental points. First, Giddens (1984, p.14) described agency as the ability to “act otherwise” which entails making a choice “to intervene in the world or to refrain from such intervention”. Actors become agents when they acquire this power to make a difference (Jack, 2017a, p.54). The exercise of this agency has the effect of influencing a “specific process or state of affairs” (Giddens, 1984, p.14). Giddens placed some limitations on this freedom to act otherwise, in his rejection of the polarities of complete autonomy on the one hand, and powerless determinism on the other (Cohen, 1989, p.26).

The second fundamental concept is structure, which Giddens (1984, p.375) defined as “rules and resources, recursively implicated in the reproduction of social systems”. Rules represent generalisable procedures used in the reproduction of social practices (Giddens, 1984, p. 21).

As discussed below, resources relate to power structures and can be authoritative (control over people) or allocative (control over objects).

There is a wide range of concepts central to structuration theory including the duality of structure and agency, the structures of signification, domination and legitimation, the model of human action (stratification model), the dialectic of control and matters of time-space. Each of these is considered in turn below.

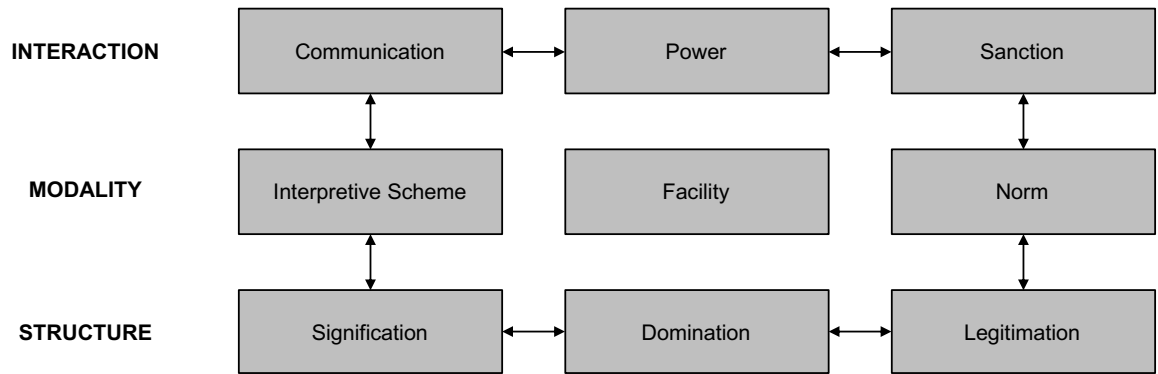
3.4.1 The duality of structure and agency

Structuration is how Giddens described “structure producing processes” (Parker, 2000, p.6), central to which is the duality of structure. Although Giddens (1984) referred to the duality of structure, it is clear that the duality he is referring to constitutes both structures and agency or, as Coad and Glyptis (2014, p.144) referred to it, “duality of structure and praxis”. This duality is the cornerstone of structuration theory and is the means by which Giddens managed to reconcile the subjectivist-objectivist paradigm debates referred to above. Giddens (1984, p.25) rejected the idea that the constitution of structures and agents are two independent phenomena. Instead, he viewed them as a mutually constitutive duality, each informing the other, with no independent existence. Structures, therefore, become both the medium and the outcome. The medium, as they allow an agent to draw upon them in social life, and the outcome, as those very acts will sustain or alter the structures themselves. The relationship between structure and agency, enshrined in this duality, is both self-replicating and inseparable, save for theoretical analysis (Schwandt and Szabla, 2013, p.3). These structuration processes are continuous, and so, at any point, structures will represent the continually evolving outcome of social activities emerging from the duality of structure and agency (Coad and Herbert, 2009).

3.4.2 The structural dimensions of signification, legitimation and domination

Structuration takes place within three dimensions; structures of signification, structures of domination and structures of legitimation. Figure 3.1 illustrates the presentation used by Giddens (1984, p. 29) to articulate the three different aspects to each structural dimension. The specific rule or resource is on the bottom row, the modality represents the way agents draw on the structures, and the top line is the form of interaction. Giddens (1984) defined structures as rules or resources, and this can be mapped onto the diagram, with domination referring to resources and legitimation and signification being rules-based.

FIGURE 3.1. THE DIMENSIONS OF THE DUALITY OF STRUCTURE AND AGENCY¹⁶



Signification structures are related to theories of coding and allow agents to give meaning to communication via the development of interpretive schemas, i.e. ways of understanding and producing meaning. Central to signification are discursive practices such as speech and writing. Structures of domination relate to either allocative resources (for example, materials) or authoritative structures which facilitate power over other agents. Legitimation allows agents to evaluate conduct in the context of established norms and the limits of acceptable practices (Giddens, 1984, p.29). Sanctions follow if such codes of conduct are not observed by agents in action. Such norms therefore both enable and constrain agents by informing them of what is and is not 'acceptable' practice.

All three dimensions have a role in any action. For example, if an analyst decided to upgrade a stock to a buy, then they would draw upon their stocks of knowledge about legitimation to understand if such an upgrade was within the norms of the field. In other words, there are expectations across the field about what needs to happen to justify (legitimise) an upgrade. Such norms might, for example, require that the stock being upgraded should have upside to the analyst's intrinsic valuation to meet the expectations of the field about upgrades. Ignoring such norms would inevitably lead to the potential for sanction (for example, reduced recognition from clients). At the same time, the analyst would have to consider if they have the power to complete the activity. This might be the control over the people needed to produce the valuation model and publish the report. Finally, the analyst would draw on their structures of signification to articulate the reasons for the upgrade in any published report or face-to-face meeting. In reality, to undertake such a complex task successfully, the agent would need a sophisticated knowledge about the configurations of power, meaning and norms within the analyst field (Stones 2005, p.17).

¹⁶ Giddens, 1984, p.29

Schwandt and Szabala (2013, p.5) described the dimensions, modes and manifestations of signification, legitimation and domination as 'coarse-grained' social structuring (see Table 3.2). Two points arise from the examples in the table. The first is variation in the manifestation of structures. For example, norms can be established through explicitly written procedures but "they may also be located epistemologically in the actions and reactions of the agent themselves" (Schwandt and Szabala, 2013, p.6). It is the fine-grained interactions that reveal the coarse-grained structure. Indeed agents may only appreciate certain norms on the application of a sanction. Second, Schwandt and Szabala (2013, p.6), emphasised the dynamic nature of these structures and the need for them to be sufficient to cope with a wide range of circumstances. So the norm for an information exchange in an internal organisational context would be very different to the expectations regarding such interactions with agents outside the firm.

TABLE 3.1. DIMENSIONS OF COARSE GRAINED SOCIAL STRUCTURING¹⁷

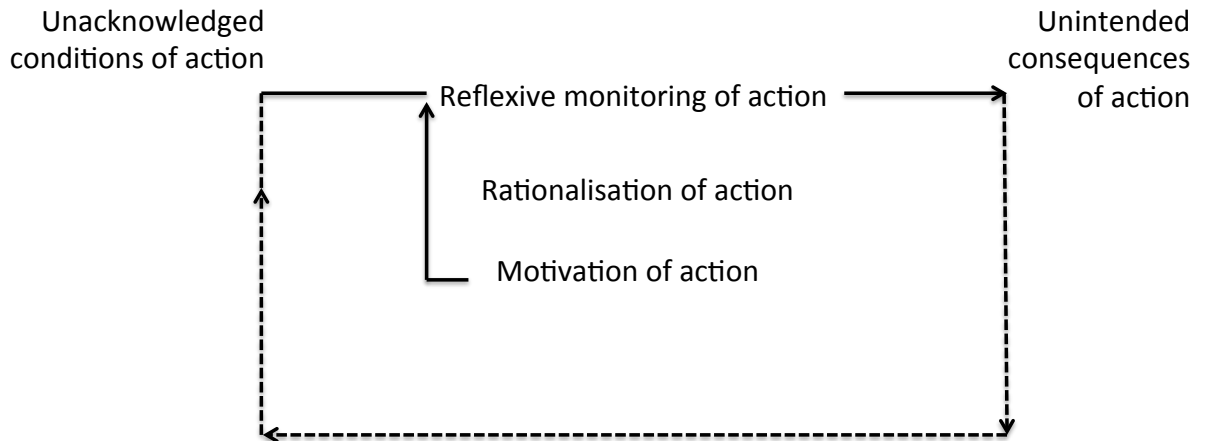
Dimensions or principles of coarse-grained social structuring	Modes of Implementation	Ontological examples of manifestation
Signification	Acceptable range of procedures and collective schemata for establishing and conveying meaning. The extent that fine-grained interactions provide a means for questioning, or renegotiating, the meaningfulness of the interactions themselves.	Organizational mission; Employee handbook; Organizational logo; Communications; Use of technology and physical space; Language.
Legitimation	Sets of norms, or rules, used by the collective to judge the appropriateness of social interactions or their "moral" justification. All norms are both constraining and enabling.	Organizational standard operating procedures; Defined relationship between supervisors and supervisee; Influence on agents stemming from collective sanctions or emerging from the agent's own self-regulation (e.g., guilt).
Domination	Acceptable use of influence and the relative distribution of power.	Allocation of resources; Decision-making procedures; Agent's perceived organizational obligations and perceived personal rights.

3.4.3 The stratification model of human action

Kilminster (1991, p.76) described structuration theory as a meta-theory of action. The acting subject is central to the duality of structure and agency, and so requires an equivalent depth of understanding to the structures discussed above. Giddens (1984, p.5) set out his conceptualisation of the acting subject in the stratification model illustrated in Figure 3.2 below.

¹⁷ Schwandt and Szabala, 2013, p.5

FIGURE 3.2. THE STRATIFICATION MODEL¹⁸



Before addressing the individual elements of the model, it is important to note that the visualisation provided by Giddens (1984, p.9) emphasises the continuous flow of action. For example, the monitoring of action informs the agent and so facilitates a reaction to, say, unintended consequences, which in turn will flow into future motivations, rationalisations and further monitoring. The activities that agents undertake, and are investigated by researchers, are themselves also a continuous flow (Giddens, 1984, p. 9). This continuity is not a trivial matter given that the conduct of agents is generally dominated by a plethora of routine everyday events, rather than more dramatic moments which may attract attention. In addition, the three critical elements in the centre of the model represent “subjective processes sustained by the agent on an on-going basis” (Cohen 1989, p.48) rather than states of mind.

Although it might appear as the logical starting point, Giddens viewed motivations as being less implicated in the flow of the model than rationalisations or monitoring. Nonetheless, the motivation for action is the starting point and it provides the impetus for the agent to engage. Stones (2005, p.24) suggested that such motivations can be “direct, intense and purposeful” or “indirect and much more routine”. Giddens (1984, p.6) noted that much of our day-to-day conduct is not directly motivated at all and such motivations may be wholly or partially conscious or unconscious (Bryant and Jary, 2001). It is when activities break with the routine that motives become more explicitly implicated in action (Giddens, 1984 p.6).

The rationalisation of action is not merely the giving of reasons for a particular course of action, nor the ability of an agent to give reasons, but extends to matters of intentionality (Cohen, 1989, p.51) and practical consciousness. First, the intention of the agent in contemplating

¹⁸ Giddens, 1984, p.5

that a particular course of action will lead to a specific quality of outcome should be considered. The success of the chosen action to deliver the desired outcome will in many cases depend upon the agent's knowledgeability about the conditions of action. No agent can have perfect knowledge of these conditions and so "unintended consequences become a recurrent feature of social life" (Cohen, 1989 p.50) and, by default, of structuration processes. Second, in routine tasks agents often do not need to explain their intentions to others. Therefore, rationalisation may not amount to a detailed discursive account, even if there are occasions when the actions of an agent will require explanation. In such circumstances, the reasons provided may deviate from the actual rationalisation of the conduct. This might be due to, for example, incomplete accounts or disguising the rationale for their actions (Cohen, 1989, p.51), albeit "actors will be able to explain most of what they do if asked" (Giddens, 1984 p.6).

The monitoring of action extends beyond an agent's own actions to the actions of others and to the social and physical world in which they are embedded (Giddens, 1984, p.5). Given the on-going continuous flow of conduct, agents cannot stop and consider every action they undertake. Here Giddens (1984, p.xxiii) made use of the concept of practical consciousness which he explained as "all the things which actors know tacitly about how to 'go on' in social life without being able to give them direct discursive expression". The monitoring of many aspects of social action occur at this level.

These subjective processes lead to the two dimensions of the model outside the agent – the unintended consequences of action and the unacknowledged conditions for action. Agents do not fully appreciate or acknowledge that by participating, for example, in everyday conversations, they are recursively sustaining linguistic rules through the duality of structure and agency. These unintended consequences are linked to unacknowledged conditions in that the former recursively reappear as the latter (Cohen, 1989, p.54). For example, in the linguistic scenario above, agents are likely to be unaware that their use of language reproduces the rules of linguistic practice. Moreover, in the next cycle of structuration, the existence of these linguistic rules will become an unacknowledged condition.

The model's use can be demonstrated in a simple application to an analyst. The motivation for a rating change could be quite routine, such as for a simple update or roll forward of forecasts as time passes. Alternatively, it could be much more complex, such as the analyst wanting to make a name for herself by making an anti-consensual stock call. The rationale for the action could also be straightforward (the need to update numbers every quarter) to more complex (making an anti-consensual call to get attention). In the latter case, it is important to note that an analyst would arguably avoid explicitly articulating this reason in any discussion, as it might undermine a portrayal of rational process. The monitoring activity would include

consideration of how others react to the stock call, and how the analyst reacts and copes with queries and questions. For example, the stock call decision might lead to unintended consequences, such as a significant client responding negatively to the analyst's decision and the analyst's reputation suffering. This arises because, how particular clients would react, an unacknowledged consequence of action, could never be understood wholly given its inherent complexity. All of these activities and responses take place in a continuous flow which then, in turn, feed forward into the on-going stratification process, and ultimately into structuration cycles in the duality of structure and agency. This is the case even though the nature of an anti-consensual stock call, which is a non-routine decision, would punctuate the flow somewhat.

3.4.4 Agency and the dialectic of control

Giddens (1984 p.14) identified a logical connection between agency and power. If agency is the ability to 'act otherwise' and 'make a difference', then it requires power to do so. Structures of dominance are identified explicitly by Giddens in his three dimensions of structuration and are always involved in social interaction (Englund, Gerdin and Burns, 2011). The dialectic of control concept holds that all agents, irrespective of their position within, say, the hierarchy of an organisation, have irreducible powers of agency, such that they can influence their superiors (Giddens 1984, p.16). In other words, no agent is without some power. Stones (2005) further developed this concept in terms of resistance, in his fortification of structuration theory.

3.4.5 Time-space

Giddens (1984) gave 'time-space' an important place in structuration theory. In fact, Urry (1991, p.160) suggested that it was Giddens' work that gave credence to a concern for time-space to such a degree that social theorists could no longer ignore "the ways in which social activities are temporally and spatially organized". Giddens developed much of his thinking on time-space from time-geography:

"Time-geography is concerned with the constraints that shape the routines of day-to-day life and shares with structuration theory an emphasis on the significance of the practical character of daily activities."

(Giddens, 1984, p.116)

There are a number of time-space concepts, extracted from Giddens' work, which are relevant to this empirical study:

1. Locale: This refers to the specific settings in which social interactions occur. For analysts, these locales would include the research department, the trading floor, the offices of a covered company or a client meeting room. Understanding these spaces is particularly crucial for deepening the contextuality of social life (Urry, 1991, p.164) and building an authentic understanding of the 'in situ' experience of the analyst position.
2. Regionalisation: This refers to the clustering of activities in particular locales at particular times. For example, an analyst's interaction with traders occurs on the trading floor during a specific span of time, generally coinciding, with when the markets are open.
3. Time-space distanciation: This refers to the degree of stretching across time-space and captures the fact that much modern day communication occurs between individuals absent in time-space. There is also increased divergence between presence in time, for example, communicating via Skype, and presence in space, i.e. occupying the same physical space (Urry, 1991).

Whilst welcoming the work of Giddens on time-space, Urry (1991) was critical, in particular, of the structural emphasis he places on the concepts. Despite the ontology of structuration theory, in his writing, Giddens classifies time-space as singly a structural concept (Urry 1991, p.160). There is no serious treatment of how agency can be implicated in matters of time-space construction. For example, imagine if the management of a company proposed weekend working hours to its employees, whom responded with vigorous objections. Such resistance would be embedded into the duality of structure and agency in an on-going process of structuration. The final working arrangements (outcomes) would be constitutive of both agency (employee action) and structures (for example, new structures of legitimation that codify normative expectations on working hours).

3.4.6 Criticisms of structuration theory

The most comprehensive codification of structuration theory appeared in *The Constitution of Society* (Giddens, 1984), although previous works had outlined various elements of structuration (for example, Giddens 1976). Given that over 30 years have now elapsed, the criticisms of the theory are well known. However, it is still useful to identify the significant issues that have arisen given that these lead to the development of strong structuration theory. Significant criticisms of structuration included rules represent an oversimplification of structures (Thompson, 1989), there is inadequate consideration of external structures (Archer, 1995), the duality of structure and agency are seen to only exist for routine matters (Mouzelis, 1991 and 2008) and undue emphasis is placed on the action of an individual (Thrift, 1996). Several of these issues are relevant to this thesis and are considered below.

3.4.6.1 *Abstract and challenging to apply in practice*

The ontology of structuration theory is positioned at an abstract level, with Giddens seen by many as a meta-theorist with little concern for empirical research (Coad and Herbert, 1989). In many ways this was intentional. Giddens did not propose structuration theory as a research programme. Therefore, it did not develop into a form that was easily translated to an *in situ* empirical application. Instead, Giddens viewed (Giddens, 1984, p.327) the theory as providing "...sensitising devices, nothing more. Maybe useful for thinking about research problems and the interpretation of results".

In employing Giddens' structuration theory for empirical enquiry, there is a need to move from philosophical theorisation to the ontic level, dealing with the specific practices, dispositions and structures of individual agents (Jack and Kholief, 2007b). Bridging such a wide gap exposes researchers to issues of misapplication and misinterpretation of theory. An ontological step change is required if there is to be a transition from what Stones (2005) referred to as '*ontology in general*' to '*ontology in situ*'; the required level at which it is possible to gain purchase on specific, situated flesh and blood agents.

3.4.6.2 *Bracketing reintroduced a dualism*

Methodological bracketing refers to omitting certain aspects of a phenomenon under investigation from analysis to allow the researcher to focus more sharply on one part of the problem. The researcher may then return to the de-emphasised area in the next phase of bracketing. Giddens (1984) recommended employing methodological bracketing when undertaking structuration studies, and proposed bracketing in a similar manner to institutional analysis and strategic conduct analysis. However, Giddens viewed institutions as "chronically reproduced rules and resources" (Giddens 1984, p.375). Therefore, this form of bracketing aims to eradicate agency from this component of the analysis. Giddens' form of institutional analysis effectively "brackets out the way that agents perceive and draw upon their structural context" (Stones, 2005, p.44). In so doing, however, it re-opens the door to the analytical dualism surrounding structures and agency, despite the avoidance of this being central to structuration theory. To deal with this criticism, Stones (2005) developed an alternative approach to bracketing which maintains a bridge between structure and agency irrespective of whether context or conduct is being investigated.

3.4.6.3 *Inadequate attention to structural boundaries*

Boundary, in this context, means the autonomy of aspects of structure and agency. Archer (1995) argued that in the duality of structure and agency both collapse together to such an

extent that they are inseparable, and this means they provide little analytical value. There is no sense of where structures or agency begin or end. Archer (1995, p.151) called for analytical dualism which would allow a temporal analysis of pre-existing structural conditions, followed by the study of social interaction and the resultant structural reproduction or change. Stones (2005, p.54) rejected Archer's argument that structuration theory finds no place for pre-existent structural conditions despite such structures being needed by agents to draw on for active agency. However, Stones (2005, p.56) did agree that these boundary issues are underdeveloped in Giddens' structuration theory; it says very little about how internal structures and external conditions of action relate to one another nor about the relationship between internal structures and outcomes.

Relevant to this discussion is the duality continuum developed by Mouzelis and expanded upon in his writings (for example, 2008, p.117). At one end of this spectrum there is the 'taken for granted duality' which describes habitual, routine action. Such action follows a relatively seamless interaction between agency and structure and would meet Archer's description of 'inseparability'. However, as Stones (2005, p.57) argued, this simply reflects the nature of routine action. Any analytical distinction between structures and action would be difficult. At the other end of the continuum is the 'critical duality' which relates to circumstances when the agent is engaged in less routine agency, and the separation between structures and agency is clearer. Stones (2005, p.58) viewed these concepts from Mouzelis (continuum of dualities) and Archer (temporality) as useful 'conceptual refinements' rather than insurmountable criticisms of structuration theory.

3.4.6.4 External structures not adequately addressed

External structures, in this context, means structures that exist outside of the agent and which are, more or less, independent of what the agent might want or desire (Stones, 2005). Giddens' ontology of structuration rejects the idea of structures outside of the agent's mind (local) or the concept that there are any hierarchical categories of structures; in other words, this is a flat ontology (Coad et al, 2015). Such compression presents researchers with the almost impossible task of unpicking aspects of structure or agency for analysis. Archer (1995) firmly rejected the flat and local ontological argument and Stones (2005) developed the quadripartite model of structuration, in part to deal with these critiques.

Mouzelis (1991) created another continuum in his work relating to external structures, which greatly influenced Stones. He suggested that external structures facing an agent can be more or less modifiable. At one end there are external structures which are relatively intractable, whilst at the other end there are external structures that can be modified depending on the

agent's position. Again, in his codification of strong structuration theory, Stones (2005) integrated many of these concepts about external structures.

3.5 USE OF STRUCTURATION THEORY IN ACCOUNTING RESEARCH

Structuration theory has been used in a wide range of disciplines. Arguably the most relevant to this thesis is its application in management and accounting related research. A seminal paper in this regard was by Roberts and Scapens (1985) which introduced structuration theory to the broader academic community in accounting. The paper suggested a shift in the examination of accounting practices towards a more holistic approach in comparison to the hitherto technical, piecemeal focus on, for example, budgeting or capital investment appraisal. This paper, in common with many papers thereafter, focused on the three dimensions of structuration; structures of signification, legitimation and domination. Accounting was selected as the specific mechanism in which to illuminate their meaning. For example, accounting could convey meaning in communication about, say, corporate performance through technical language like cost, revenue, or income. It could also have legitimation structuring properties in its role in establishing norms through “the communication of a set of values, of ideals of expected behaviour, of what is approved and disapproved” (Roberts and Scapens, 1985, p.448), for example, in accountancy’s role of setting budgets or performance targets. Finally, it could be used as a source of domination, as “the means whereby some people seek to control and coerce others” (Roberts and Scapens, 1985, p.449).

The use of structuration theory has widened dramatically since Roberts and Scapens. Englund, et al (2011) identified over 65 papers in leading academic accounting journals that had employed structuration theory in a significant way, over 40 of which adopted an empirical approach to data collection, mainly using case studies. In their review, they saw evidence of an emphasis on the duality of structure and the three dimensions of structuration, namely legitimation, domination and signification. The dominant ontological basis of these studies focused on establishing “when and why socially embedded agents may produce both continuity and change in accounting practices” (Englund et al, 2011, p.494). Indeed the most common approach across this sample of papers was to examine how the three types of structure have been drawn upon and reproduced by agents as they go about their activities. Conrad (2014, p. 129) was not surprised by this focus on the structures of signification, legitimation and domination, rather than on agency. She suggested that this has been driven by Giddens’ decentring of agents in his own theory.

Nonetheless, Englund et al (2011) identified a large number of papers covering a wide range of topic areas. The selection of papers addressed in this section illustrates the effective use of a wide range of specific concepts from structuration theory. Alam, Lawrence, & Nandan

(2004) exploited the idea, put forward by Giddens (1976), that social practices embody contradictions and that these reveal more than simply the functions they fulfill. The researchers investigated how the “contradictory structures of the wider Fijian social order” (Alam et al, 2004, p.154) are uncomfortable bedfellows, with the push for globalisation and commercial practices in the Fijian Development Bank.

Costing systems have been the subject of a number of papers. Granlund (2001) attempted to grapple with the resistance of accounting systems to change despite a dynamic and ever changing environment. His results suggest that human factors are central to any consideration of system change or stability. Structuration theory provided the bridge to link the institutional analysis with such human factors.

Two papers by Jack (Jack, 2005; Jack, 2007a) focused on the agricultural sector. The first conceptualised gross margin accounting in the agricultural sector as an institutionalised practice and examined how such practices had persisted. The analysis suggests that such persistency may be somewhat illusory through the construction of simplifications and unintended consequences (Jack, 2005, p.77). The second paper examined the pressures within the fascinating, but oft neglected, agri-food network. Jack found that these strains in the network acted as a catalyst for “farmers being obliged to engage with accounting”, (Jack, 2007a, p.928). This paper employed the allocative and authoritative structures of domination from Giddens (1984) for its analysis. Collier (2001) also exploited Giddens’ concepts of power. Here, in an examination of management accounting practices in the police force, Collier (2001, p.467) accepted the view that “power and conflict are in a contingent relationship” in that if interests are shared then power does not necessarily imply conflict. In the case study, through a form of ‘loose coupling’, conflict is minimised. Thus this becomes an example of the enabling feature of power, in contrast to an oppressive conceptualisation of domination.

Seal (2003) examined the practice of incrementalism in budgeting, whereby budgets move only marginally from their position in the previous year. The structures of signification, domination and legitimation are used as one technique to investigate the reasons behind this incrementalism.

Concepts of trust and ontological security are central to Busco, Riccaboni & Scapens (2006). Their study’s context was an Italian firm in crisis after a takeover by a very large US firm (GE). This highly detailed paper concluded that within this context:

“Trust for change is necessary for implementing MAS, and accounting is needed to sustain trust for change in practice.”

(Busco et al, 2006, p.38)

In other words, there is a reciprocity between trust and change, with accounting acting as a bridge between the two.

These papers represent only a small sample of the literature applying structuration theory. The focus is almost entirely on management accounting related topics. One paper which did apply the theory outside this domain was Tollington (2006). In that paper, power dynamics within the accounting standard setting process were investigated using structuration theory. Tollington (2006) argued that in a similar way to speech being structured by language, communication of financial performance and position is structured by the accounting standard setting process. That is to say, that one of the most relevant and essential “social structures of accounting” is standard setting (Tollington, 2006). He examines the UK’s regulatory system for accounting standard development in its role as the principal body that constructs the way corporate financial reality is viewed by users. The empirical data was obtained from analysing the responses to a controversially proposed accounting standard and other historical exchanges between the regulator and respondents on the topic. A number of points arise from the research, but the most evident linkage to structuration theory is the application of the dialectic of control between the standard setting board and the respondents over space and time. It is clear that the respondents rarely dominated the debate due to their much weaker power position. However, on a number of occasions, the respondents influenced the debate. Such influence, exercised by a weaker party, is an example of the two-way use of power in the dialectic of control, and the resistance that agents can draw upon.

This selection of papers does illustrate the rich and varied uses to which structuration theory has been put. Nonetheless, Englund et al (2011) have suggested that scholars have not, as of yet, exploited the full competitive advantage of structuration theory by extending their work on structures to an exploration of the day-to-day practices of agents.

3.6 THE DEVELOPMENT OF STRONG STRUCTURATION THEORY AND ITS KEY CONCEPTS

The genesis of strong structuration theory is two-fold. One is the theoretical critique made by a number of academics which, in large part, have gone unanswered as Giddens himself “turned his hand to other things” (Stones 2005, p.2). Stones (2005) did take many of these critiques into account in his formulation of an ‘improved’ version of structuration theory. The other driver behind the development of strong structuration theory is Stone’s conviction of the potential of a more developed version:

"I believe that to reject structuration theory rather than to build on its productive and fertile, and still incipient, insights would be to do the cause of social theory a great disservice."

(Stone 2005, p.46)

Strong structuration theory imports a wide range of concepts from Giddens, most importantly, its central tenet of structural duality. Other concepts, including the dialectic of control, structures of signification, legitimation and domination, the importance of position-practice relations and time-space are all present in work by Stones (2005). However, there has been a significant effort by Stones (2005) to further refine these concepts, to provide practical advice about their implementation, to change emphasis and introduce new concepts of his own.

For example, Stones embraced the concept of the dialectic of control but embellished and refined its application around the concept of resistance. So an agent's irreducible powers emerge from three sources; the adequacy of their power or their capacity to resist, their knowledgeability regarding alternative courses of action and the other external structures they will face and, finally, the requisite reflective distance to consider the courses of action to specific situational pressures they experience (Stones, 2005, p.115). The extent to which the agent possesses these three properties, if all other things remain equal, determines his or her ability to "regulate, modulate, reflect, and erase" specific aspects of external demands or pressures (Adhikari and Jayasinghe, 2017 p.99). In this case, strong structuration theory has built upon Giddens' concepts and has guided researchers to undertake a finer grain of analysis of the dialectic concept.

Following on from this example of enhanced intellectual clarity, and integral to the strong structuration project, is the move away from a relatively abstract ontology to a much more detailed, applied form of theory. Interestingly, Cohen (1989, p.6) ascribed some of the 'disorganised' nature of *The Constitution of Society* to Giddens' aversion to 'systematic theory'. Giddens (1984, p.xxxv) describes how structuration theory was formulated from a "critical evaluation of a variety of currently competing schools of social thought" . It is the combination of this loose and unorthodox form of exposition (Cohen, 1989, p.6), coupled with the intrinsic complexity and breadth of the issues addressed, which presents challenges to researchers. Stones (2005) moved from this general starting point to an *in-situ* ontology that encourages researchers to explore empirical case studies of particular agents and structures. These developments have greatly enhanced the clarity of empirical investigation using concepts sourced originally from structuration theory (Coad et al, 2015). In this way Stones (2005) builds upon the foundations of Giddens' writing (Jack and Kholief, 2008), as well as developing his own original themes and concepts.

3.6.1 Differences between structuration theory and strong structuration theory

In what ways does strong structuration theory from Stones (2005) differ from Giddens' (1984) original approach? There are some key areas of divergence considered below.

3.6.1.1 *A move to ontology in situ*

As already discussed, one significant criticism of Giddens' structuration theory was that it embraced an ontology that was abstract, a so-called "ontology in general" (Stones, 2005, p.7). This ontological abstraction made it much more challenging for researchers to investigate empirically, among other things, the particulars of who made a decision, what precisely they did and the specificity of time-space contexts. Strong structuration theory encompasses ontology in general, but also emphasises 'ontology in situ' which entails "pointing it towards the ontic, towards the realm of the particular concrete and/or situated entities in the world" (Stones 2005, p.76). Stones (2005) argued that the re-orientation of theory towards practical empirical research problems is positive, as it ensures researchers engage more completely with the theory and maximise its potential for making a meaningful contribution.

3.6.1.2 *Meso level of ontological scale*

Stones' (2005) desire was to drill down, from abstract conceptualisations in Giddens' structuration theory, to *in-situ* engagement. However, he was concerned that linkages to the broad concepts of the theory could be weakened on the long journey from abstract to ontic. Therefore, Stones developed an ontological scaling concept (2005). In simple terms, this describes the three ontological levels that bridge the journey, from the abstract and conceptual at the summit, to the ontic unit of study and empirical observation at the most detailed level. The key bridge to achieve enhanced linkage is the introduction of a meso level within this set of ontological scales:

"It involves taking abstract ontological concepts and identifying relative variations in the ontic manifestations of general ontological concepts without losing sight of the necessary logical relationships between the two levels of analysis."

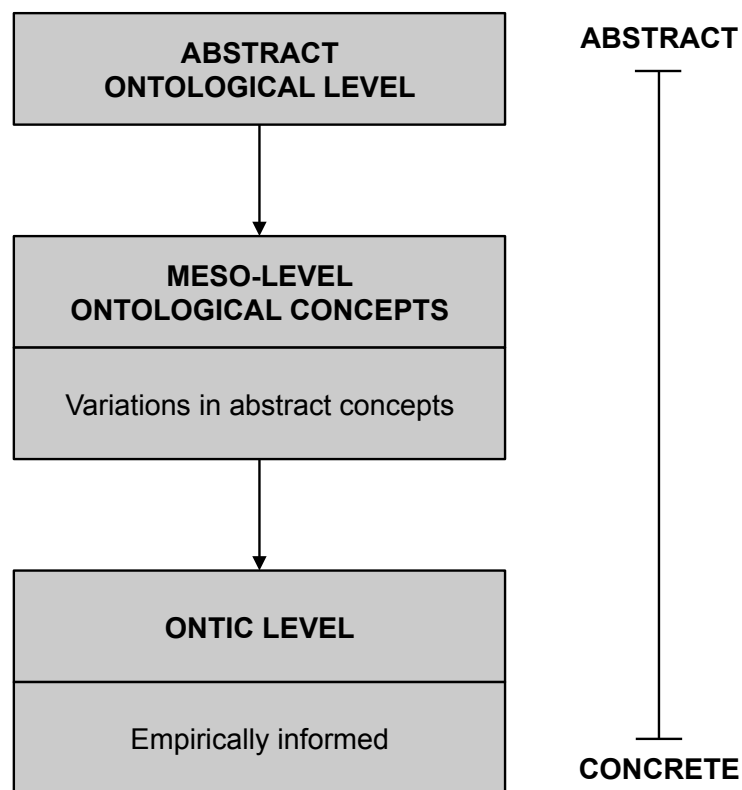
(Stones, 2005 p,78)

Stones (2005, p.77) illustrates the three levels of ontology as shown in Figure 3.3. Level 1 is the most abstract and is consistent with Giddens' conceptualisation of an ontology in general. It provides the broadest of guidance to researchers and sensitises them to the issues that may warrant investigation in an empirical study. The ontic level represents the empirically informed, ontological level. However, there is a very significant space between abstractionist theorising

at this level and ontic level data collection. Stones (2005) was concerned that researchers would find it difficult to bridge this gap, and this is why he inserted a meso layer to guide and inform the collection of empirical data. The employment of this concept helps to ensure a systematic and logical progression from the relatively abstract concepts down to the evidence gathering realities of the research. The meso level is similar to Parker's zone of intermediate temporality (Parker, 2000, p.120). Parker positions this zone as floating below the macro level but above the micro or individual actor (Elbasha and Wight, 2017, p.114). The position-practice relations framework provides scholars with a tool to occupy and investigate this meso-level and to provide a stronger link between the actions of agents and the structural contexts in which they are embedded.

Strong structuration theory requires researchers to clarify the levels at which a research project is pitched (general, meso or ontic). A particular study may cover more than one level. For example, context analysis might typically occupy a meso level space between the abstract and the ontic. On the other hand, conduct analysis may well be pitched at the ontic level. Furthermore, the agent(s) in focus and agent(s) in context must be identified clearly. In this thesis, given that the research question is about rating decisions, the agents making and articulating those decisions, sell-side analysts, quite naturally act as our agent in focus.

FIGURE 3.3. THREE ABSTRACT-CONCRETE LEVELS OF ONTOLOGY¹⁹

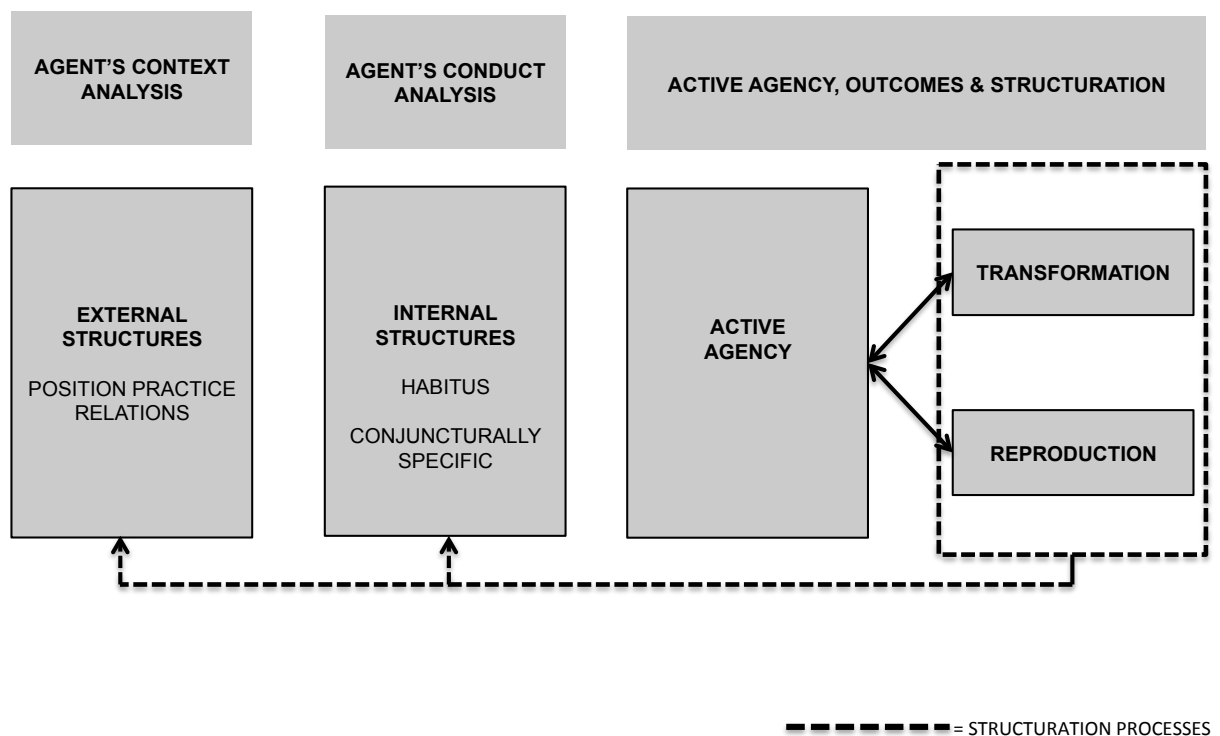


¹⁹ Adapted from Stones, 2005, p.77.

3.6.1.3 The quadripartite cycle of structuration

Stones captured the duality of structure in the form of a quadripartite cycle of structuration (Stones 2005, p.84) with four interwoven dimensions. Before examining each individual element in turn, a number of broader points are relevant. First, this framework is used to investigate the structuration process around specifically chosen conjunctures (Greenhalgh and Stones, 2010, p.1288). Stones (2005) saw these conjunctures as any “critical combination of events or circumstances”. For example, in the context of this thesis, it might be a significant rating decision made by an analyst. Second, given the quadripartite framework, the study of structuration includes the seeking of empirical evidence with which to explore key concepts, and to explore the relationship between them; this extends to a consideration of both etic (social structures external to the agent) and emic (internal structures and hermeneutics) dimensions. There are four “analytically separate” (Coad et al, 2015, p.157) components considered below and illustrated in Figure 3.4. Crucially, the model should not be interpreted as having four consecutive stages. Instead, the four elements should be conceptualised as interwoven and together constituting a cycle of structuration. Note the demarcation on the diagram of the bracketing approach recommended by Stones for the application of strong structuration theory involving both conduct and context analysis.

FIGURE 3.4. QUADRIPARTITE MODEL OF STRUCTURATION²⁰



²⁰ Adapted from Stones, 2005, p.85.

Component 1: External structures

External structures are those contextual agency limiting forces and pressures outside of the agent. In undertaking deliberate action, agents are rooted in a structural context and inevitably draw on their knowledge of this as they act (Stones, 2005, p.17). When structures are described as external, this does not mean outside of the organisation in which the agent is employed, but merely outside of the agent themselves (Harris et al, 2016). Such structures are best understood by employing the position-practice relations framework as this helps map the social terrain facing and external to the agent in focus. This framework is integral to strong structuration theory and is considered further below, and applied empirically in Chapter 5.

The constraint imposed by external structures presented a challenge to Stones in his formulation of strong structuration theory. There was a need to reconcile structuration theory's emphasis on the relative autonomy of the agent, while also giving recognition to structural causal influences on the agent's life that are beyond their control. Stones (2005, p.109) addressed this by delineating two types of external structural forces; independent causal influences and irresistible causal forces. The first term describes those external structures that have complete autonomy from the agents to whom they affect. Such structures exist and persist, irrespective of the wants, desires and conduct of the agents (Stones, 2005, p.111). Effectively the agent is not in a position to resist while fulfilling the commitments they have in their role. The second, labelled other irresistible causal forces, appear to the agent to be immutable but in certain circumstances can be resisted by an agent.

Stones (2005, p.115) structured his analysis of resistance along three conditions, all of which need to be satisfied for an agent to be in a position to consider resistance to such external structures:

- **Adequate power** to resist without endangering the realisation of core commitments;
- **Adequate knowledge** of alternative courses of action and what would be the likely consequences of those alternatives;
- **Adequate critical distance** in order to reflect and consider taking up a strategic stance about a particular external structure.

In an empirical investigation, it is likely that scholars would come across a range of external structures, some of which agents would be in a position to resist and others which would simply overwhelm them, with no practical alternative other than to more or less fully comply. Stones (2005, p.115) pointed out that the absence of "tools of resistance" may well be down to the inadequacies of a particular agent, and that such deficiencies are often the reason why external structures can have such a hold over agents.

Feeney and Pierce (2016) have suggested that Stones oversimplified the nature of external structures in describing them as independent or irresistible as explained above. Their case study looked at accounting information as an external structure in new product development. They found that accounting information can be used in an informal or formal context. In informal usage, accounting information is “fluid and dynamic, evolving on a day-to-day basis, shaped and moulded to individual managers” whereas that same external structure has a more rigid and defined characteristic when used in a formal sense (Feeney and Pierce, 2016, p.1168). This critically emphasises that external structures, in particular contexts, will take on variegated forms and a strict dichotomy between independent on the one hand and irresistible on the other hand may not be adequate for the complexities of a particular empirical setting.

Cohen (1989, pp.207-209) argued that Giddens missed an opportunity by failing to elaborate on the role that position-practices could play in filling the missing link between structures and institutionalised modes of conduct. Stones draws upon the work of Cohen (1989) and proposed position-practice relations as the most suitable framework to investigate structures existing outside of agents.

As the name describes, position-practice relations consists of three elements. The first is the social ‘position’ occupied by the agent in focus, relative to the various clusters of agents in context, along with the associated identities that come with that position. ‘Practices’ relates to the obligations and rights embedded in the role of the agent in focus. Finally, ‘relations’ represents those clusters of agents in context across the network and addresses issues of power and trust.

The focus of strong structuration theory is to investigate empirical case studies in which individuals are situated in “webs of networked relations” (Greenhalgh and Stones, 2010, p. 1288), and this is illustrated in Figure 3.5 below. The agent in focus can be viewed as embedded with the networked agents in context (or clusters of agents in context) with whom they have relations and with whom they interact in the ongoing fulfilment of their obligations in a given social position. Position-practice relations can be particularly useful to tease out how different groups battle against each other and how this may effect practices across the network (Stones, 2005).

In understanding the development of particular social positions, there is a need to reflect on the historical context (Cohen, 1989). So, for example, previous incumbents of the social position of a sell-side analyst will have reproduced/transformed that position through the duality of structure and agency. Therefore, an analyst will inherit the legacy of previous cycles of structuration that have produced or reproduced rights, obligations, duties, norms and power

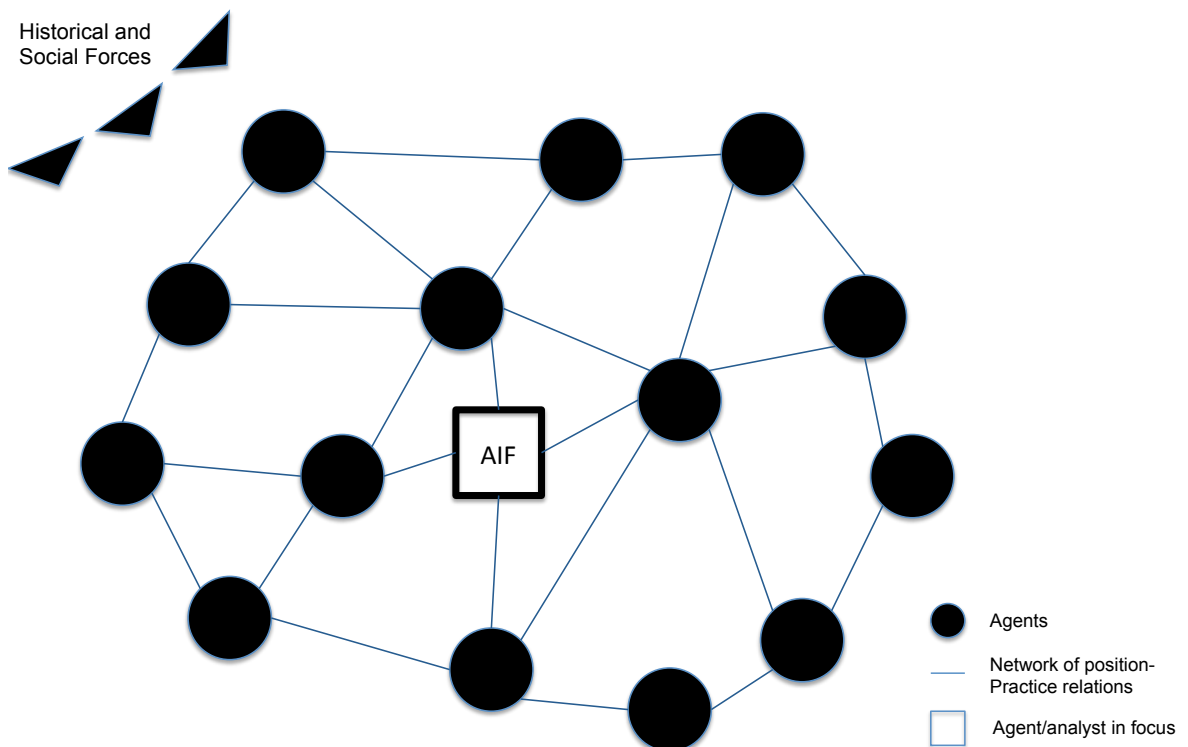
resources commensurate with the practice of being a sell-side analyst. These structuration processes will continue as the *in-situ* analyst reproduces or transforms their inheritance.

Gathering data about all of these matters enables the researcher to build a sophisticated contextual framework which can be brought to bear on the problem under investigation. It helps the researcher focus on relative power and the strategic conduct of agents (Coad and Herbert, 2009, p.188). The data required to construct this sophisticated picture is collected by interacting with agents in focus and agents in context:

‘...actors within position-practices...are assumed to be reflexively knowledgeable regarding their specific social positions and the network of practices surrounding them, and to be a source of knowledge concerning how agency is carried out and how structures are reproduced.’

(Elbasha and Wright, 2017, p.115)

FIGURE 3.5. NETWORK OF POSITION-PRACTICE RELATIONS²¹



As mentioned previously, position-practices can also fulfil a role as an integrative device, providing a much needed bridge between the abstract ontology of structuration and the ontic level of data collection. It is, therefore, typically, a meso level conceptual tool. Researchers

²¹Adapted from Stones, 2005, p. 94

can define their field as, for example, an organisation or an industry, depending on the research problem. They can then investigate how agents in focus interact, develop their understanding of reasonable conduct, and shape and redefine appropriate practices (Coad et al, 2015).

Moore and McPhail (2016), in their work on the development of regulation around carbon pricing, proposed that committee hearings could be usefully viewed as a potential field of study for position-practice relations. They investigated the various ontological levels of these hearings to understand how policy developed. In particular, through an industry (meso) analysis of the Victorian water industry, the authors identified mechanisms which mediated power structures at the macro level. Another unique feature of the paper was their use of other theories, alongside strong structuration, to expand their analysis. In particular, the “faces of power” concept from Lukes (2005) is highly relevant to analysts’ interactions with covered companies. This is addressed in the later chapters.

Coad and Glyptis (2014), in one of the most detailed applications of the position-practices framework, examined agents and their relations in a joint venture arrangement. They specified four dimensions that need to be examined when using the framework: the establishment of the position of agent clusters (both agents in focus and agents in context) in the field, through a mapping exercise; an in-depth understanding of the practices of these variously situated agents; the analysis of power issues as capabilities; and finally, identification of issues of trust, both personal and system based.

Recent work by Daff and Jack (2018) focused on networks for accountants. One of the major findings is that the accountants in the study made significant efforts to enhance, develop and sustain their networks. Therefore, when exploring the practices of these accountants, the motivation to ‘network build’ will be implicated in their practices. Very similar issues arise for the analysts in this study.

Component 2: Internal structures

Now it is time to turn inwards, to the structures within the agent. This is one of the most significant “conceptual elaborations” Stones (2005) made to Giddens’ structuration theory (Coad and Herbert, 2009, p.180). Faced with a critical event or decision, the agent in focus draws upon internal structures and, in conjunction with the external structures which they face, produces action which can then be observed (Greenhalgh et al, 2010). Stones (2005) disaggregates internal structures into two categories; the general-dispositional and the conjuncturally-specific.

The general-dispositional refers to “generalised worldviews, principles of action, habits of speech and gesture, methodologies for adapting generalised knowledge to a range of particular practices in particular locations in time and space” (Stone, 2005, p.88). It is typically conceptualised as existing, for the most part, in a taken for granted unnoticed state, undiscussed and undisputed (Stone, 2005, p.88). Stones (2005) drew heavily on the work of Bourdieu’s and his notion of habitus, which Parker (2000, p.44) described as “the concrete, embodied, interest-laden disposition which flows from being in a position”.

The second category, conjuncturely-specific, represents knowledgeability around the particulars of the conjuncture or situation under investigation. So, for example, when examining an analyst rating decision, then the analyst will arrive at that type of decision with generic capabilities, dispositions and strategic knowledge. The particulars of what the analyst will actually do will depend on a host of specificities which cannot be predicted in advance (Greenhalgh et al, 2010). Such specificities would include contextual matters and the particularities of external structures and constraints of time and space. Giddens’ structures of signification, domination and legitimation can be found to have a place in the position-practices framework in this category of situated context specific internal structures. In addition to their role as stocks of knowledge within the agent, conjuncturely-specific structures provide an important “hinge” between the general-dispositional structures within the agent and the external structures facing the agent (Stones, 2005, p.123).

Component 3: Active agency

Stone (2005, p.100) set out two forms of active agency. The first is the agent consciously making a choice or decision to act. The second is routine, conventional decisions, a sense of just acting and reacting, doing it even in the absence of a conscious decision. This form of agency or conduct can be investigated and expanded upon using Giddens’ (1984) stratification model described above. Stones (2005, p.100) set out five analytically distinguishable aspects of active agency:

1. **Shifting of the horizon of action:** This determines the “context of relevance” and will influence the specific aspects of structure to be accessed and drawn upon by agents (Stones, 2005 p.101)
2. **Creativity and innovation:** Agents will not always exercise agency in predictable ways. Their habitus is unique, and so a response to the specifics of a situation will be based on a combination of the orientations, principles, habits and skills which are settled within their habitus.

3. **Degrees of critical distance and reflection:** Mouzelis (2008) argued that agents will be much more reflective about their conduct for non-routine decisions and so this should be considered in any analysis of active agency.
4. **Conscious and unconscious motivations:** Although difficult to isolate for analytical purposes, Stones clearly saw (2005, p.102-103) that the unconscious can play a dynamic role in motivations. Conscious and unconscious emotions and motivations are implicated in the specific way that both forms of internal structures (general-dispositional and conjuncturally-specific) are mediated, perceived and, ultimately, drawn upon by agents (Stones, 2005, p.103).
5. **The ordering of concerns/sorting of priorities:** There is a recognition that a plurality of possible projects exist and the nature of conduct will be affected by the ordering of concerns (Stones 2005, p.103).

Component 4: Outcomes (as external structures, internal structures and events)

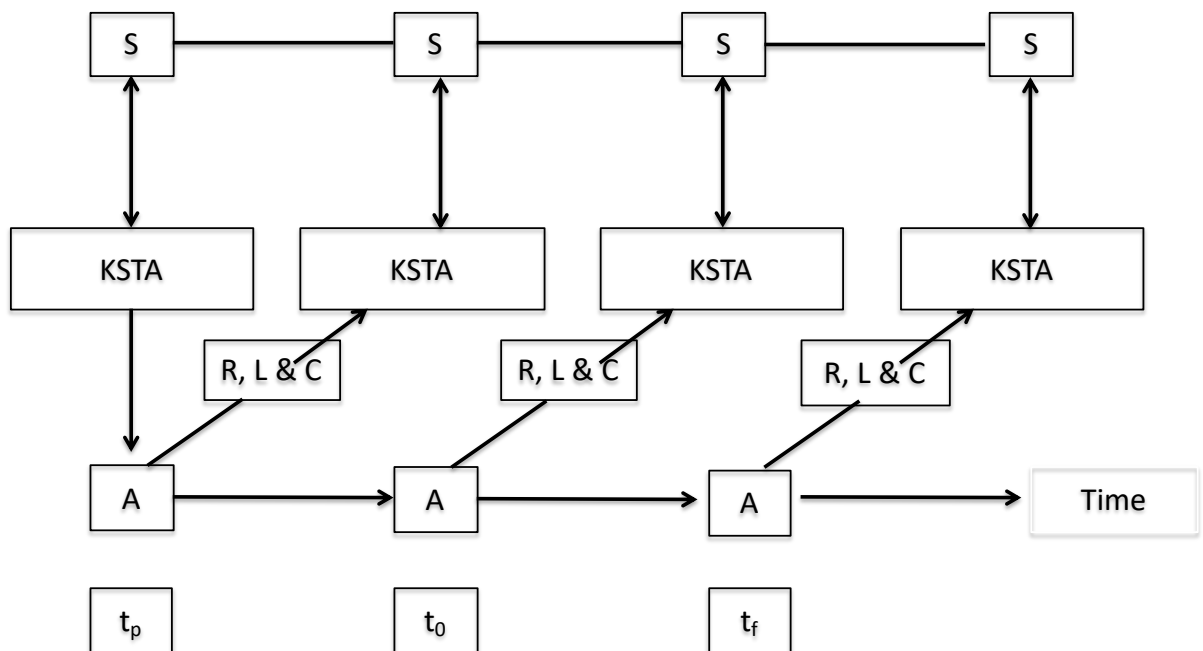
The on-going cycles of structuration culminate in outcomes, as a result of active agency. Consistent with the ontology of structuration, and the stratification model of action, outcomes may be intended or unintended, agents may be successful or unsuccessful in their endeavours, and structures may be sustained or altered (Stones, 2005, p.85). In strong structuration based studies, there is a need to go beyond recording the outcome in overly simplistic terms. For example, it might be that an analyst does not upgrade a stock. As an outcome, this provides insufficient detail to enable an in-depth analysis of the process of “interaction, negotiation, consensus and dissent” that produced the decision (Harris et al, 2016, p.1196). As this study focuses on structural diagnostics as a result of the processes of structuration, it demands a more ‘structure orientated’ way to express outcomes. The emphasis will be on matters of structural preservation or structural change. In fact, there are a range of possible outcomes which may impact internal and external structures. Coad and Herbert (2009) characterised these as reproduction, learning or change. Reproduction results in existing structures being sustained. Such reproduction might still result in a more refined understanding (elaboration) of these structures, or indeed their strengthening or weakening (Feeney and Pierce 2016; Elbasha and Twight, 2017).

For example, an agent may try to resist a structure and act to alter it. However, if this is not successful, then there is still a potential learning process. The agent may develop a deeper understanding of the structure (learning, elaboration). Part of that understanding may be that the structure is stronger than previously thought. If the agent now perceives the structure to be stronger, in the process of a subsequent cycle of structuration, this perception may be further reinforced or challenged by the actions of the agent. For example, the agent may abandon their efforts to resist. Conversely, through active agency, in the form of resistance,

the agent may "disrupt, challenge or alter" existing structures (Elbasha and Twight, 2017, p.118). Therefore, through this learning process, agent's will develop an understanding of whether structures can be altered and this knowledge will inform future cycles of structuration. This provides structuration cycles with a momentum based on learning from previous cycles.

Coad and Herbert (2009) had a similar set of ideas in their Knowledge of Structures and Theories of Action (KSTA) skeletal structuration model. The model, illustrated below in Figure 3.6, explicitly links action with structural change or reproduction. Two important concepts are embedded in the model and are best explained by examples. Suppose an analyst is thinking about a potential stock downgrade. The first thing they would do is to look back at previous downgrades and draw from their knowledge of internal and external structures ('knowledge of structures') manifest only in the form of memory traces about previous downgrades. The negotiation between these various structures will enable the analyst to consider the possible alternative courses of action ('theories of action') available. Ultimately these will result in either reproduction of existing structures, changes to those structures or learning.

FIGURE 3.6. SKELETAL MODEL OF STRUCTURATION²²



3.6.1.4 The centrality of epistemology and methodology

Consistent with the shift away from an abstract ontology in general, Stones had much to say about the practical implementation of structuration theory for research and what types of

²² Code & Herbert, 2009, p.180

problems might be best suited to using the theory. He highlighted that the “ontological concepts at the heart of structuration theory have a distinctive capacity to be linked to an investigation of a certain significant, but limited, range of question types” (Stones, 2005, p.116). Given the nature of the theory, research objectives will necessarily involve questions about structures, their form, shape and origins, interlaced with a hermeneutical focus on agents (Stones 2005, p.117). Coad et al (2015, p.158) identified some important aspects to investigate as part of the application of strong structuration theory, including a sophisticated study of an agent’s motivations, an interpretation of the dialectic of control and the agent’s own reflexive monitoring of what they do. Pivotal to any strong structuration-based study will be a focus on some or all parts of the quadripartite framework. An initial focus by a researcher on one constituent of the quadripartite cycle will naturally lead on, as the project unfolds, to other aspects of the cycle that appear relevant to the question under investigation (Stones 2005 p.117).

As previously discussed with regard to methodological issues, one of the most important tools explored by Stones (2005) is the concept of methodological bracketing.

Agent context analysis moves the focus away from the agent towards the social terrain in which they are embedded, represented by the position-practice relations of the field. Importantly, the agent’s hermeneutic frame of meaning remains present in context analysis, as it is the agent’s interpretation of those external structures (Stones 2005 p.122).

Meanwhile, agent conduct analysis draws upon the ontological concept of knowledgeability, and once context analysis has been conducted there is a move back to the agent herself (Stones, 2005, pp.121-122). Giddens (1984, p.375) saw knowledgeability as “everything which actors know about the circumstances of their action and that of others drawn upon on the production and reproduction of that action.”

It refers to stores of knowledge within the agent. Stones (2005, p.121) expanded upon conduct analysis to include the study of an agent’s own reflexive monitoring, to their ordering of concerns into a hierarchy of purpose, their motives and desires. Regarding examining practices, the focus is on the agent’s conjuncturally-specific internal structures at the point they encounter external structures and bring about a “reconciliation of sorts with the active agency” (Stones, 2005). For many questions, there is a need to draw upon both an agent’s conduct and context analysis (Stones, 2005 p.122). One reason for this is the essential linking role played by conjuncturally- specific internal structures. These structures act as a hinge between external structures on the one hand and general-dispositional frames and agents’ practices on the other (Stones, 2005 p.123).

3.6.1.5 *Systematic research process*

Stones' (2005, p.123-125) analytical framework broadly follows the quadripartite structure and employs context and conduct methodological bracketing. It entails establishing:

1. General-dispositional frames of the agent in focus;
2. Conjuncturally-specific internal structures, within a general-dispositional frame;
3. External structural clusters;
4. Possibilities for action and constraint.

Coad et al (2015) acknowledged that a few studies have already employed aspects of this approach (see, for example, Feeney and Pierce 2016; Neville 2014). This study follows the general approach although methodological bracketing is the primary organisational tool. Crucially, the order of priority for the four steps outlined above can be changed, and the steps can be combined to suit the nature of the research question (Elbasha and Wright, 2017). For example, this project commences with contextual analysis before moving on to conduct analysis. This reconfiguration of the order, such that context comes first, does not mean the agent has been ignored. To the contrary, in undertaking context analysis, the study draws upon an agent's knowledgeability in interpreting the agent's understanding of their context. The agent is ever present in all of the analysis, as Stones requires (Stones 2005, pp.124-125).

3.7 RESEARCH USING STRONG STRUCTURATION THEORY

Since the launch of strong structuration theory by Stones (2005) there has been a steady stream of papers published across a wide range of disciplines many of which have been referred to in the chapter already. A structured search for the term 'strong structuration theory' was undertaken across a number of databases to identify relevant studies. For this search textbooks, working papers, papers predominantly on structuration theory rather than strong structuration theory or those studies with little relevance to this thesis were excluded. This process produced twenty eight papers and these are tabulated below in Table 3.2. There are a significant number of conceptual papers consistent with a relatively new theory that requires introduction, promotion and development. Many of these papers made a compelling case for the use of strong structuration theory and drew attention to the fine-tuning of concepts (for example, Stones and Jack, 2016) and matters of application (for example, Coad, et al 2015). The form and nature of how the theory has been applied have transformed over the period since its launch. Initially, it was applied to previously collected data (for example, Jack and Kholief, 2008; Harris et al, 2016) but many studies have now integrated the theory into the design of new research (for example, Feeney and Pierce, 2016; Makrygiannakis and Jack, 2016). Indeed, Makrygiannakis and Jack (2018) encouraged the adoption of a circular

research design to embed strong structuration theory from the commencement of the research, in order to enhance the quality and quantity of the evidence gathered. This point is revisited in Chapter 4 when discussing the design of this study.

Papers have, in the main, situated the quadripartite structuration process at the epicentre of the research. However, this has also started to change, with some papers looking at specific aspects of the theory. For example, Coad and Glyptis (2014) and Moore and McPhail (2016) both focused on the employment of the position-practice relations conceptual tool as the centrepiece for their studies.

Most of the studies have used a case study methodology although there have also been cross-sectional interview-based field studies (for example, Elmassri et al 2016; Daff and Jack, 2018). These empirical studies have addressed a wide range of contexts such as enterprise risk planning (Jack and Kohlief, 2008), strategic decision making (Harris et al, 2016; Elsmarri et al, 2016)), capital budgeting in the energy industry (Warren and Jack, 2018), healthcare (Jeffries et al, 2017), information technology projects (Greenhalgh and Stones, 2010), carbon accounting (Moore and McPhail , 2016), information usage in NPD (Feeny and Pierce, 2016) and education (Aldous, Sparkes and Brown, 2014).

TABLE 3.2. MAJOR PAPERS ON STRONG STRUCTURATION THEORY

Authors	Journal	Paper type	Description
Daff and Jack (2018)	Accounting, Auditing and Accountability	Field study	<p><i>Accountants' proactivity in intra-organisational networks: A strong structuration perspective</i></p> <p>This study begins with the mapping of the position-practices network in which accountants are embedded. It then elaborates on how accounting communications, as a form of active agency, develops and sustains these networks. Accountants undertake roles in various guises including experts, bridge builders and connectors. A tentative model of accounting communication is proposed which defines active agency in terms of influencing the conjuncture-specific knowledge and behaviour of others.</p>
Makrygiannakis and Jack (2018)	Meditari Accountancy Research	Conceptual	<p><i>Designing a conceptual methodology for structuration research</i></p> <p>This paper addressed the critical issue of when to introduce theory into research design. A circular design which embeds theory at the design stage was put forward as an effective way of seeking to make a theoretical, as well as an empirical, contribution. In addition, such an approach reduces the risks of insufficient quantity and quality of evidence during data collection.</p>
Stones, Botterill, Lee and O'Reilly (2018)	The British Journal of Sociology	Ethnographic and interview study	<p><i>One world is not enough: the structured phenomenology of lifestyle migrants in East Asia</i></p> <p>The study looked into the lifestyle migration of European and Hong Kong Chinese migrants. The research was based around the ontological categories of habitus, contextual fields and active agency. A key finding was that contentment in their new lives could be linked to the ability to creatively adjust habitus, including the expectations embedded therein, to the 'specific challenges and constraints of the new terrain' (p.6).</p>

Authors	Journal	Paper type	Description
Warren and Jack (2018)	British Accounting Review	Case study	<p><i>The Capital budgeting process and the energy trilemma – A strategic conduct analysis</i></p> <p>Based on a longitudinal study of the energy industry. The principal theoretical foundation is Giddens’s strategic conduct analysis bracket, although concepts from Strong structuration theory are also used. The case study illustrated, among other things, how knowledgeability can allow actors to effect ‘change in the rules and structures of the markets in which they operate’ (p.494). This is the case even if their position appears weaker than others, through the mechanism of a dialectic of control.</p>
Adhikari and Jayasinghe (2017)	Accounting Forum	Case study	<p><i>‘Agents-in-focus’ and ‘Agents-in-context’: The strong structuration analysis of central government accounting practices and reforms in Nepal</i></p> <p>The authors emphasised the dialectic of control when explaining the resistance of government accountants (agents in focus) to pressures from various agents in context to update budgetary practices. Their work centred on a detailed analysis of position-practice relations including the contradictions between the accountants and the various agents in context.</p>
Elbasha and Wight (2017)	Management	Conceptual	<p><i>Reconciling structure and agency in strategy as practice research: Towards a strong-structuration approach</i></p> <p>This paper supported the use of strong structuration theory for strategy as practice research. They described the ‘full-scale’ developments of structuration theory by Stones and view, in particular, the “sophisticated analytical lens to understand how wider macro-contextual factors...bear down on what actors do in practice” (p.122). They asserted that these factors have tended to be downplayed in the strategy literature until now.</p>

Authors	Journal	Paper type	Description
Jeffries, Phipps, Howard, Avery, Rodgers and Ashcroft (2017)	British Medical Journal	Field Study	<p><i>Understanding the implementation and adoption of an information technology intervention to support medicine optimisation in primary care: qualitative study using strong structuration theory.</i></p> <p>The study examined the introduction of a new computerised prescription service. The context was complicated both socially and organisationally. The main conclusion was that top-down interventions, such as the introduction of this new system, are more likely to be: “perceived as tools of managerial control are less likely to be effective than those that take into consideration existing local practices and the ambitions and attitudes of those who will use the technology.” (p.8)</p>
Coad, Jack and Kholief (2016)	Accounting, Auditing & Accountability Journal	Conceptual	<p><i>Strong structuration theory in accounting research</i></p> <p>This conceptual paper identified how the use of Stones’ (2005) context and conduct analysis had moved research away from a narrow focus on structures to a more comprehensive approach that fully integrates agency. The “dynamic analysis of who said what to who, why, where and when with what consequences for social relationships at micro-, meso- and macro- relationships provides the starting point for research design” (p.1140).</p>

Authors	Journal	Paper type	Description
Bodolica, Spraggon and Tofan (2016)	Health Expectations	Literature review	<p><i>A structuration framework for bridging the macro-micro divide in health-care governance</i></p> <p>The paper examined the contradiction between hierarchical centralised (macro) policies for healthcare and their relationship with day-to-day micro-interactions. Strong structuration theory was adopted as an interdisciplinary framework to bridge and develop this perceived macro-micro divide. They concluded that institutional level norms have developed independently of patient-level (micro) interaction. The authors advocated the integration of these domains through a strategy of inclusion both for patients and communities in health-care decisions.</p>
Elmassri, Carter and Harris (2016)	British Accounting Review	Field study	<p><i>Accounting for strategic investment decision making under extreme uncertainty</i></p> <p>The context for this paper was strategic decision making in Egypt after the financial crisis/revolution. The quadripartite framework was central to the research and provided a unique lens to view the 'people and process' dimensions of strategic decision making and appreciate the influence of external structures. The influence of external structures was a complex intertwinement of structures and agents rather than uni-dimensional and uni-directional.</p>
Feeney and Pierce (2016)	Accounting, auditing and accountability	Empirical Case Study	<p><i>Strong structuration theory and accounting information</i></p> <p>The case at the centre of this paper examined the use of accounting information in the development of new products in a 'relatively small' anonymous case company. Strong structuration was the theoretical underpinning. The findings suggested that an individual manager's use of accounting information is an outcome of structuration and depends on the interaction of that manager with their conditions of action.</p>

Authors	Journal	Paper type	Description
Harris, Northcott, Elmassri and Huikka (2016)	Accounting, auditing and accountability	Empirical Case Study	<p><i>Theorising strategic investment decision-making</i></p> <p>In this paper, the authors <i>retrofit</i> strong structuration theory to previously published case studies on strategic decision making. Key insights emerged from reflecting on the agent's knowledgeability and meso level position-practice relations.</p>
Stones and Jack (2016)	Accounting, auditing and accountability	Conceptual and methodological	<p><i>The bridge between ontological concepts and empirical evidence: an interview with Rob Stones.</i></p> <p>In this interview-based paper, Stones elaborates on the linkages he sees between the ontological concepts employed in a research study, and the empirical evidence needed to support them. He saw identification of these privileged concepts as the result of a dynamic process between the empirical evidence and the problem under investigation.</p>
Makrygiannakis and Jack (2016)	Accounting, auditing and accountability Journal	Case study	<p><i>Understanding management accounting change using strong structuration frameworks</i></p> <p>This paper uses strong structuration theory to investigate the change in management accounting in a post-financial crisis context in Greece. Two features of the study are particularly important. First, the theory was embedded into the research design enabling interviews to pose much more penetrating questions. Second, the linkage between the ontic and abstract levels was explored in detail, and the variability in these concepts was also reflected in the research design.</p>

Authors	Journal	Paper type	Description
Moore and McPhail (2016)	Accounting, auditing and accountability	Case study	<p><i>A position-practices perspective of policy development at the macro, industry and organisational level</i></p> <p>This paper examined the development of carbon accounting practices in using the position-practices framework. Their investigation included an examination of all three levels on the ontological scale. The authors commented that structuration processes can be happening simultaneously and at various levels of ontological scaling. In addition to strong structuration theory, the study also drew from Lukes' (2005) work on power to explain the dynamics at play.</p>
Coad, Jack and Kholief (2015)	Qualitative Research in Accounting and Management	Conceptual	<p><i>Strong structuration theory in accounting research</i></p> <p>This paper built on previous conceptual papers by the authors and looks at how strong structuration theory has been used in recent research and, in particular, how it overcomes the issues with applying Giddens' theory to empirical investigations. The potential for embedding strong structuration theory in the design phase of research projects was discussed at length.</p>
Aldous, Sparkes and Brown, (2014)	British Journal of the sociology of education	Longitudinal study	<p><i>Traditional experiences of post-16 sports education: Jack's story</i></p> <p>The paper was based on an 18-month longitudinal study of a student moving between further education and higher education. Structuration theory was employed to draw attention to the nuances of Jack's transitional experiences over time and the educational processes and practices that inform them (p.192). By separating internal and external structures, the theory facilitated a more profound understanding of Jack's agency.</p>

Authors	Journal	Paper type	Description
Coad and Glyptis (2014)	Critical Perspectives on Accounting	Case study	<p><i>Structuration: A position–practice perspective and an illustrative study</i></p> <p>This was one of the first papers to feature a detailed use of the position–practice framework. The focus was on a joint venture and how different groups (in this case management accountants and engineers) battle against each other. The paper included detailed mapping and addressed four factors as part of the analysis – positioning, praxis, capability and trust.</p>
Greenlaigh, Stones and Swinglehurst (2014)	Social science and medicine	Case Study	<p><i>Choose and Book: A sociological analysis of ‘resistance’ to an expert system</i></p> <p>This study examined the reasons for resistance to a new general practitioner computer-based appointment booking system. By adopting a sociological perspective, the authors identified the socio-material aspects of resistance. The sources of resistance identified included the control of choice being maintained by clinicians rather than patients and reluctance of clinicians to recommend unfamiliar service providers. The authors concluded that ‘<i>overly top-down, abstracted approaches to reducing resistance to information technology are not the best way forward</i>’ (p. 218).</p>
Stones and Tangsuovattana, (2014)	Journal of Political Power	Conceptual	<p>Consistent with the Stones’ subsequent textbook on social theory (Stones, 2015) and current affairs, the authors showed how concepts from social theory can help those interested in going beyond surface level commentary. The key conceptual synthesis was through a strong structuration lens. The case is specific to Thailand’s political turmoil and unrest.</p>

Authors	Journal	Paper type	Description
Schwandt and Szabla (2013)	Emergence, Complexity and Organization	Conceptual	<p><i>Structuration theories and complex adaptive social systems</i></p> <p>This paper addressed the drive for more ‘fine-grained’ analysis of human interaction on the basis that it has been neglected in organisational studies which have instead privileged coarse grain or more macro level studies instead. The authors employed the concepts of Giddens to address the coarse grain aspects of structure and then employed Stones (2005) to address the finer, interaction based microelements.</p>
Creswell, Worth and Sheikh (2011)	Clinical Governance: An International Journal,	Case study	<p><i>Implementing and adopting electronic health record systems: How actor-network theory can support evaluation</i></p> <p>Although ANT is the main framework, the authors felt the need to import aspects of the internal/external structural distinction from strong structuration theory in order to rebut the criticism that ANT is overly descriptive. In particular, they suggested that the emphasis on internal structures in strong structuration theory will be useful in understanding why agents act as they do.</p>
Chan, Deave and Greenhalgh (2010)	Sociology of Health and Illness	Case study	<p><i>Childhood obesity in transition zones: an analysis using structuration theory</i></p> <p>This study identified that threats to ontological security are implicated in many of the issues that underpin the development of obesity in the children studied.</p>
Greenhalgh and Stones (2010)	Social Science & Medicine	Conceptual (with some case study elements)	<p><i>Theorising big IT programmes in healthcare: Strong structuration theory meets Actor Network Theory</i></p> <p>In this paper the authors rejected the use of ANT as the primary theoretical framework for the study, but decide to combine aspects of it with strong structuration theory. In particular, the acceptance of technology as part of the position-practice framework alongside human agents.</p>

Authors	Journal	Paper type	Description
Coad and Herbert (2009)	Management Accounting Research	Conceptual with some case study applications	<p><i>Back to the future: New potential for Structuration theory in management accounting research</i></p> <p>The authors developed further thoughts on the use of strong structuration theory for empirical work. In particular, they developed their 'Knowledge of Structures and Theories of Action' (KSTA) model which more explicitly connects action with structural reproduction, structural learning or structural change.</p>
Jack and Kholief (2008)	Accounting Forum	Case Study	<p><i>Enterprise resource planning and a contest to limit the role of management accountants: A strong structuration perspective</i></p> <p>A primary focus of the paper was on the process of stabilisation of power structures and the precise articulation of the process by which embedded asymmetries of power come to be the outcome of structuration. The authors argued that the major contribution of the case, and the analysis, is to elucidate the "difficulties of establishing sustainable structures where there are conflicting dispositions and conjecturally specific understandings of the roles of different groups of actors within the boundaries of an organisation" (p.43).</p>
Jack and Kholief (2007b)	Qualitative Research in Organizations and Management: An International Journal	Conceptual (with some application to cases)	<p><i>Introducing strong structuration theory for informing qualitative case studies in organisation, management and accounting research</i></p> <p>In this paper, the authors introduced strong structuration theory as a theoretical framework for field and case study based research. The key enhancements introduced by Stones (2005) are explained and applied in some summary case studies.</p>

Authors	Journal	Paper type	Description
Parker (2006)	Journal of Critical Realism	Conceptual	<p><i>Structuration's future? From 'all and every' to 'who did what, where, when, how and why?'</i></p> <p>The author, while admiring aspects of Stones' scholarship, did not support the theoretical underpinnings and concludes that Stones needed to address much of Archer's more dualist perspective in the formulation of his work.</p>

3.8 CRITIQUES OF STRONG STRUCTURATION THEORY

As discussed earlier in the chapter, strong structuration theory can be seen to represent a continuation of the core ideas of Giddens, but in a fortified and substantially developed form. However, strong structuration theory is itself not without criticism, albeit much more limited than the commentaries on Giddens' work. Some of these critiques are abstract and ontological in nature, whereas others are more specific and practical.

At the ontological level, Parker (2006, p.134) argued against Stones' retention of the duality of structure, instead arguing that analytical dualism is required. He argued that in order to explore how structures and agency are related, and how they interweave, an analytical distinction between them is needed. Parker (2006) remained unconvinced about strong structuration theory:

"The original structuration theory on Stones own showing was not adequate to the problematic; but nor is his own strong version, whatever its merits as a research guide."

(Parker, 2006, p.137)

Englund and Gerdin (2016), in their response to Coad et al (2015), have questioned the significance of Stones' (2005) rejection of a flat and local ontology. Their view is that in many empirical settings the results of the research would be similar (Englund and Gerdin, 2016, p.260). However, they agreed that a flat and local ontology has difficulty in accepting broad macro structures "independent of and external to human agents" (Englund and Gerdin, 2016, p.255).

In the development of their KSTA model, Coad and Herbert (2009) suggested, that there is a paucity of specific connecting tissue to explain how components of the quadripartite model interact in the reproduction, learning and change of social structures. Scholars may be left analysing the quadripartite framework as if it is a four-stage model rather than a four-dimensional conception of structuration. There has also been some criticism that the disaggregation of external structures into irresistible and independent elements was too simplistic. For example, Makrygiannakis and Jack, (2016, p.1255) felt that this was inadequate for management control situations, as did Feeney and Pierce (2016) for accounting information in new product development.

3.9 CONCLUSION

Strong structuration theory is a significant development of Giddens' original work. There has been significant momentum in the use of the theory for empirical research studies across a

wide range of research problems. The theory is flexible in scope as well as being conceptually diverse. It offers a rich menu to draw from as scholars seek to understand the practices of agents. As suggested by Marygiannakios and Jack (2018) and Harris et al (2016), there is much to be gained by embedding the theory in the research design. This should not result in an overly restrictive approach to the research given the inherent flexibility in the theory.

The breadth of concepts in the theory presents a range of conceptual tools that researchers can make use of for *in situ* empirical work. Two points are relevant here. First, Giddens (Bryant, Giddens and Jary, 2001, p.230) was openly disparaging of research studies that attempted to employ structuration theory “en bloc”. Instead, he thought it should be used as a sensitising device, with concepts borrowed where they had some utility given the nature of the research problem. Harris et al (2016, p.1198) noted that although strong structuration theory is much richer in guidance than structuration theory, there may be small areas where Giddens (1984) speaks more clearly than Stones. In Chapter 7 of this study we shall see that, in particular, Giddens’ (1984) stratification model of active agency proved a very helpful framework for our analysis. Second, Stones suggested that in research studies there is a need to link the specific concepts emphasised as part of the study with the empirical evidence collected, what he referred to as conceptual methodology. As explored later in this thesis, the evidence collected pointed to the importance of a number of concepts including resistance (to external structures), power, trust and positional identity.

In this study both context and conduct analysis are used. The former to provide evidence on the external conditions facing the analyst. The latter to examine internal structures and agency. In combination, it facilitates a contextually sensitive explanation of the practices of analysts. Consistent with strong structuration theory’s form of bracketing, context analysis is positioned so the researcher will look in at the agent, looking out at their context, or as Stones put it:

“..it’s the researcher’s analysis of the in situ agent’s perspective and understanding of the contextual field.”

(Stones and Jack, 2016, p. 1148)

It never removes the agent from the analysis. Conduct analysis enables an examination of the internal structures of the agent and how these ‘face-off’ against the external structures, ultimately leading to agency and structural reproduction or change through the structuration cycle. Conduct analysis enables the researcher to zoom in and “*cloak more specific, but messy, fine-grained agent actions within the organization.*” (Schwandt and Szabla, 2013, p.2).

The next chapter sets out the philosophy of the research and its operationalisation. This includes the practical data collection techniques used and why they are suitable for the

implementation of a strong structuration theory based project addressing the research question. The chapter completes the set-up of the research, and so attention then turns to its application in practice.

CHAPTER 4.
RESEARCH PHILOSOPHY, THEORETICAL
FRAMEWORK AND METHODOLOGY

4.1 INTRODUCTION & OVERVIEW

The foundation of a research study emerges from the paradigmatic stance, or world-view, adopted by the researcher. Such views represent fundamentally basic tenets about the nature of the world, our relationship with it and the knowledge we can accumulate. Beliefs regarding such pervasive matters cannot be proved or disproved and, on the part of the holder, are accepted on faith (Guba and Lincoln, 1994). However, researchers are required to identify, explain and justify critical assumptions underpinning their research. Logical connective tissue between the values and claims made about the world on the one hand, and the operationalisation of data collection and analysis techniques on the other, reinforces the cogency of knowledge produced in a research study.

The first three chapters of this thesis laid the foundation for the project. Chapter 1 set out the research question, Chapter 2 the contextual literature regarding the analyst field under investigation and Chapter 3 delved into strong structuration theory, the theoretical lens. This chapter draws together these various threads to explain how a suitable research design was developed and operationalised for the study. There are a number of approaches to describing and justifying a chosen research configuration (for example, Crotty, 1998; Burrell and Morgan 1979; Guba and Lincoln, 1994) but all address four issues in some form or other – ontology, epistemology, methodology and methods. These aspects are initially addressed in general, before the thesis sets out the choices made in this particular study. An extra section within the chapter reflects on, and contextualises, the researcher's position and role in the research.

Before proceeding to a closer examination of these research decisions, there are two fundamental matters that foreshadow the discussions. First, central to the study is the endorsement of a circular research design methodology that “starts and finishes with theory” (Makrygiannakis and Jack, 2018, p.71). This approach reframes the inductive research sequence from ‘data-theory-findings’ to ‘theory-data-analysis-theory’. The inherent circularity, whereby a study starts and ends with theory, recognises the non-linear processes inherent in much qualitative research. It also offers researchers the best opportunity of making a theoretical contribution. Conceptual tools, from particular social theories such as strong structuration theory, act as navigational guides for researchers in the empirical domain (Makrygiannakis and Jack, 2018). This early stage engagement with theory influences a wide range of research design matters including the choice of participants, interview protocol design, coding tactics, data analysis and theoretical contributions. Second, the presence of strong structuration theory throughout the work is a mediating device when considering the subjectivist-objectivist divide omnipresent in social research. Strong structuration theory and structuration theory reject the supremacy of either a structural (objectivist) or agency (subjectivist) position. Instead the theory argues for a duality, where each informs the other.

Therefore, strong structuration theory could be seen as a 'bridge' when formulating a philosophical stance, or at least as a means to reconcile the subjective-objective debate (Ryan, Scapens and Theobald, 2002). Nonetheless, the thesis is situated as an interpretive study. As discussed previously, this is in contrast to the dominant objectivist position adopted in the mainstream literature. The argument that pervades this chapter is that positivist approaches would have been wholly unsuitable to the research question.

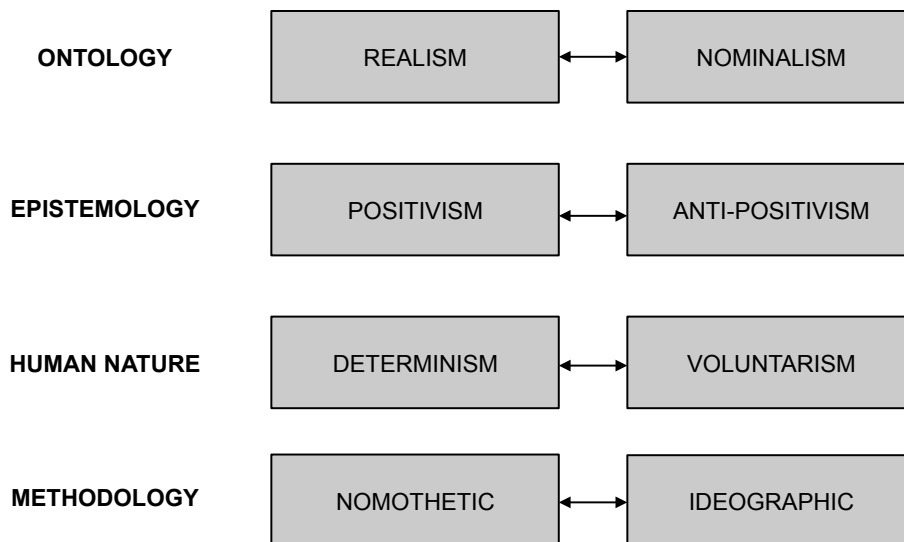
4.2 RESEARCH PHILOSOPHY

Burrell and Morgan (1979), in their influential work on research paradigms, established broad characteristics of objectivist and subjectivist positions. The objectivist standpoint assumes a single external reality exists whereas the subjectivist position reflects a belief that there is no absolute truth and reality is a subjective social construction. It is worth noting the commonality between this set of alternative positions (objectivist – subjectivist) and the structure–agency debate at the heart of structuration theory.

4.2.1 Key elements of a philosophical stance

Returning to Burrell and Morgan (1979), Figure 4.1 shows the overall classification framework.

FIGURE 4.1. PHILOSOPHICAL POSITIONS²³



Burrell and Morgan (1979) classified research paradigms using these four dimensions, with two extreme positions identified at either end. Ryan et al (2002) have suggested that although

²³ Adapted from Burrell and Morgan (1979)

this is a useful starting point, having only two points on a continuum is overly simplistic. Chua (1986) also criticised the mutually exclusive dichotomies employed by Burrell and Morgan. However, the framework still provides a useful structure for discussing the proposed position to be adopted in a research study.

4.2.1.1 Ontology

This refers to the view of reality foundational to the research, the way of understanding “what is” (Crotty, 1998, p.10). A realist perspective is objectivist and consistent with a belief in the existence of a “hard, tangible and relatively immutable” external reality waiting to be discovered (Burrell and Morgan, 1979 p.4). Researchers, and the participants in the study, do not create knowledge or reality; it exists independent of them (Chua, 1986; Bryman, 2012).

The researcher’s role is to pursue the objective, independent truth and to avoid contaminating or co-constructing it. Therefore, the search is for precise, objective data with the motivation that, if the research is designed appropriately we can discover the objective truth (Crotty, 1998). An unavoidable contradiction of this philosophical stance is that, given research is carried out by human actors, who themselves can “never escape their emotions and values, can never be authentically objective” (Guba and Lincoln, 2013, p.38) the search for absolute truth is, arguably, futile.

In contrast the nominalist position views reality as “emergent, subjectively created and objectified through human interaction” (Chua, 1986 p.615). There is no absolute true reality ‘out there’ waiting to be discovered. Instead what exists is only that which we perceive to exist (Burr, 2015). As a researcher, language has a central role to play in gathering these perceptions, as this is how people articulate their perceptions to others. A nominalist position embraces subjectivity and recognises the inevitable entanglement of the researcher in any research project without viewing such closeness as necessarily negative.

4.2.1.2 Epistemology

The focus of epistemology is on the type of knowledge that research can generate. Is the knowledge seeking to establish generalisations applicable to a broad set of circumstances? If so, this would be described as positivism and is consistent with a realist perspective. Alternatively, the knowledge may be specific, rich and contextual. Such a stance would sit in opposition to positivism and so is termed anti-positivism. Central to such approaches is the idea that knowledge is not out there to be discovered, as with the realist position, but is instead created with time-space specificity (Guba and Lincoln, 2013).

Ontology and epistemology are closely linked and, in the view of some scholars such as Crotty (1998), are so informed by each other that they become almost indistinguishable. Ontological positions naturally influence and place limits on the nature of the knowledge that can be accumulated. From this perspective it makes little sense to speak of a worldview that embraces reality as definite and immutable in one breath, and to seek to construct knowledge in another.

4.2.1.3 *Human nature*

A subjectivist view would be that the individuals in the research are free willed and autonomous, whereas on the objectivist side, the view would be that their activities are determined by the environment (Burrell and Morgan, 1979). Strong structuration theory provides mediating concepts here. The duality of structure rejects the primacy of either structure or agency. Instead structure and agency are interwoven. In this study the concept of the duality of structure and agency is the appropriate human nature perspective.

4.2.1.4 *Methodology and methods*

This section concentrates on the practical data collection and analytical techniques designed to achieve the objectives of the research and service its philosophical worldview. Methodology addresses the justifications for choosing a particular recipe of data collection methods (Clough and Nutbrown, 2012). It is important not to confuse the methods used to collect data with methodology, which occupies a space above these practical matters. The choices made about ontology, epistemology and human nature will all impinge on the type of methodology that might fit the broader paradigm. Burrell and Morgan (1979) identified two contrasting methodological dichotomies; nomothetic and ideographic. A nomothetic approach focuses on making broad generalisations, typically using quantitative data and a highly structured methodology. In contrast, an ideographic orientation requires the research to:

“develop an understanding of the way in which the individual creates, modifies and interprets the world in which he or she finds himself.”

(Burrell and Morgan, 1979, p3)

4.3 PHILOSOPHICAL FOUNDATION OF THE THESIS

This study uses the terminology of Crotty (1998) to set out the philosophical stance adopted for this study. Crotty suggested four elements structured as: epistemology/ontology; theoretical perspective; methodology; and methods. Each choice informs the next level to provide coherence to the research study.

4.3.1 Ontology and Epistemology

As discussed previously, this study employs strong structuration theory as the overall theoretical framework. That theory essentially has its own ontology which acts as a bridge between the objective (structuralism) and subjective (agent orientated) positions. Therefore, central to the ontological position in this study is the 'duality of structure and agency' where such an approach posits that:

"Subject and object, micro and macro, social structure and human agency are reciprocally related, and that the purpose of research is to explore the flux between these various dualities..."

(Greenhaigh and Stone, 2010).

Crotty (1998) extended the positions that can be adopted beyond Burrell and Morgan's subjectivist-objectivist divide, with the addition of social constructionism. This is the epistemological position adopted in this thesis which in social science, argues that entities:

"exist only in the minds of the persons contemplating them' and 'have ontological status only insofar as some group of persons (frequently, social scientists, but often the rest of us, also) grants them that status."

(Guba and Lincoln, 2013, p.39).

Under this epistemological position emphasis is given to the subjective experiences of individuals (Hopper and Powell, 1985). There is no singular reality waiting to be discovered. Knowledge can only be derived by gaining access to the inner thoughts of participants. What is relevant is the perceptions of the world obtained from participants. The knowledge is "highly person and context specific" (Guba and Lincoln, 2013, p.40).

As covered in Chapter 2, the vast majority of sell-side analyst literature is situated within an objectivist paradigm. The assumption is that analysts operate in a logical fashion and are "calculative and instrumentally rational" (Hopper and Powell, 1985, p.434), controlled and incentivised to act rationally by structures of economic reward. This study rejects this positioning and so leads it to an 'anti-positivist' stance, based on the Burrell and Morgan (1979) framework. Rather than adopt this rather antagonistic phraseology, the thesis will instead employ the term 'social constructionism' to describe the knowledge that emerges from the study. The research question centres around gaining an understanding as to how the social setting, in which an analyst is embedded, influences their work, especially on stock rating decisions. The objective of this study is to delve into how analysts experience the world and to understand the meanings they attach to aspects of their practices. In adopting this position, analysts' work is embraced as symbolic not literal, relevant data is subjective and potentially vague rather than precise, and there is an acceptance that it is value loaded not

value free (Boland and Pondy, 1983, as cited in Chua, 1986). All of these positions are pertinent to the research question at hand. None are consistent with objectivism.

4.3.2 Theoretical perspective

Considering all the various strands together, the most appropriate description of this study's theoretical perspective is interpretivism. Such a research philosophy is "concerned with making sense of the social character of daily life" (Ryan et al, 2002 p.42) and "stresses the constant uncertainty confronting individuals seeking to make sense of the world they inhabit." (Hopper and Powell, 1985, p.448). All interpretive traditions position human interpretations as central to developing knowledge of the social world (Prasad, 2018).

It is important to note that the type of knowledge claims consistent with an interpretive approach are bounded, tentative and subjective (De Loo and Lowe, 2017): bounded, as the research is necessarily context specific; tentative, as the research is exploratory; subjective given, *inter alia*, the entanglement of the researcher in the research act. The knowledge produced through interpretive enquiry is neither objective, nor absolute or truly generalisable (Crotty, 1998, p.16).

Interpretivism is an umbrella term covering a multiplicity of approaches (Lee and Lings, 2013, p.60). Given that this study intends to delve into the minds and "meaning-making and sense-making" (Guba and Lincoln, 2013 p.40) of our participants, hermeneutics is central to the research. Hermeneutics has its origins in textual analysis, in particular of scriptures, although its application has widened considerably over time to include human situations, events and practices (Crotty, 1998). There are a number of concepts associated with its use. Arguably the most important is the hermeneutic circle, the process of understanding individual parts of a phenomenon relative to the whole, and at the same time realising the whole is itself composed of parts (Ling and Lee, 2008).

This interpretivist hermeneutic approach embraces 'Verstehen' in producing culturally derived and historically situated knowledge (Crotty, 1998). Hermeneutics also has explicit links to strong structuration theory and structuration theory. It is worth noting that both Giddens (1984) and Stone (2005) have stated that any empirical work using concepts from structuration must reflect a hermeneutic orientation. For example:

“Structuration’s hermeneutic and phenomenological emphasis means that it would be difficult to over emphasise the point that all these different aspects of agents and agency should be seen as suffused and informed by an agent’s hermeneutic frame of meaning.”

(Stones, 2005, p.29)

4.3.3 Methodology

The methods chosen in this study are directly linked to how truth or knowledge has been defined in ontological and epistemological terms. Research questions are pivotal in this regard.

The question at the crux of the thesis, referring as it does to a deeper, social infused, understanding of analyst decision making, requires a rich data set. The intent is to understand the world of analysts from their perspective (Lee and Lings, 2013). In order to achieve this, analysts and other agents need to be afforded the opportunity to share their experiences and reflect upon their ideas and concerns (Smith, Flowers and Larkin, 2009).

Given the hermeneutic epistemological orientation of this study, a consistent methodology is based around an ideographic core. This study’s interpretive stance is a move away from large sampling and data modelling of human actors to an approach entailing engagement with actors in the field (Chua 1986). For reasons discussed above, the use of positivist methodologies would have been fundamentally unsuitable for addressing the study’s particular research question. Additionally, it would have also been incompatible with the epistemological and theoretical standpoints set out in this chapter. The chosen approach was a field study, the essence of which is immersion in a particular *domain*:

“For us, the characteristics that distinguish field investigations from other forms of research are that they involve the in-depth study of real-world phenomena through direct contact with the organizational participants.”

(Merchant and Van der Stede, 2006, p.118)

“Qualitative field studies collect data in the domain ‘field’ and employ ‘qualitative’ methodology.”

(Aherns and Chapman, 2006, p.821)

This field study approach was not a detailed focus on one particular case in the tradition of a single case study methodology (Yin 2006). Instead, the approach was to examine multiple cases in order to gain a fuller understanding of the practices of sell-side analysts in the field.

Choosing to conduct field work across various clusters of agents in context, in addition to agents in focus, is consistent with methodological advice from Stones (2005).

4.3.4 Methods

This section examines what Crotty (1998 p.3) described as the “techniques or procedures used to gather and analyse data related to some research question”.

Up until now this thesis has not discussed the distinction between quantitative and qualitative research. This is quite deliberate as, consistent with others such as Crotty (1998) and De Loo and Lowe (2017), this study views them as useful ways to group methods rather than as methodologies or overall philosophical perspectives on research. This research adopts the position of Ahern and Chapman (2006, p. 827) that by definition field studies require “close engagement rather than objective, distanced capture”. Quantitative methods (for example, a survey) or qualitative methods (for example, interviews and focus groups) could still be used within a field study. However, the epistemological and theoretical positions, constructivism and interpretivism respectively, have informed the choice of methodology and this in turn has narrowed the field of suitable methods. This research posits that if the intention is to understand the lived experiences of participants then the researcher must interact and converse with them. The chosen research methods explore individuals in terms of their understandings and subjective experiences (Cunliffe, 2010). Therefore, in pursuit of such knowledge and respecting the philosophical foundations of the study, the use of survey methods or experiments was rejected. The chosen major data collection methods were semi-structured interviews and focus groups. The detailed design choices about the forms of interview, its integration with focus groups and participant recruitment are all addressed below.

4.4 THEORETICAL FOUNDATION AND CIRCULAR DESIGN

There are valid debates about the most effective time to introduce theoretical ideas into a research study, and the extent of the role played by *a priori* theory before, during and after the collection of empirical data (Marginson, 2004, Makrygiannakis and Jack, 2018). Early adoption of theory is often discouraged to diminish the possibility that, if applied prematurely, it might encourage inflexible or closed thinking. Instead, allowing theoretical ideas to emerge once data has been collected is given primacy. Fundamentally, effective analysis and interpretation of an empirical domain entails being open to alternative theories and explanations. The purest form of this would require arriving at a study with no pre-conceptions whatsoever. In many ways this is an unrealistic position:

“...it has been recognized that such an idealistic position is impossible to attain. Besides the personal baggage (for example, beliefs, values) that the researcher brings to any investigation, preparatory work on the subject will unavoidably imbue him or her with prior conceptual and theoretical perspectives.”

(Marginson, 2004, p. 326)

Arriving at data collection with no theoretical foundations is not only fanciful but presents risks to the effectiveness of the research project. For example, specific interview questions are often needed, or at least best suited, to the application of particular theories. Arguably asking the most penetrating questions enhances and enriches a research study. This concern for the quantity and quality of data collection is one of the reasons this study subscribed to a theoretically informed circular design which supports the researcher “to ask the right questions, i.e. questions that secure data of both sufficient quantity and appropriate quality around certain conceptualisations and interrelations” (Makrygiannakis and Jack, 2018, p.78).

Consistent with the circular design used in this study, theory was engaged at the commencement of the research. At this juncture, the theoretical concepts acted as broad directional tools. For example, central to context analysis in strong structuration theory is an examination of the position-practice relations of the field. The introduction of this concept at the outset directly impacted design and data collection decisions. In design terms, it directed data collection into the field of position-practice relations, and led to a research plan devised to include interviews with a broad range of agents, not only the agent in focus. Such an approach allows the construction of a composite picture and has specific support in the literature (Stones, 2005, Coad and Glyptis, 2014, Harris et al, 2016). These early interviews, in turn, lead to an examination and exploration of other related theoretical concepts such as power, obligations and rights, and trust which, ultimately, became established in interview protocols. This illustrates how theory informs design and data collection, which itself feeds back to theory development.

These concepts are important not only to strong structuration theory, but also to other theoretical frameworks, so there was no sense of straight-jacketing the research with obscure concepts relevant only to a specific theory. In addition, the early stage theoretical engagement not only helped ensure data was of sufficient quality and quantity (Makrygiannakis and Jack, 2018) for the research purposes but also that effective use was made of the limited time with professional analysts and other experienced participants.

4.5 REFLEXIVITY ON THE ROLE OF THE RESEARCHER IN THIS STUDY

Interpretive research places the researcher near the epicentre of the research study. The consequential entanglement between informant, researcher and the overall research process

is unavoidable (De Loo and Lowe, 2017). If it is accepted that knowledge is socially constructed then the intimate involvement of the researcher is essential (Lee and Lings, 2013). Acknowledging openly the role the researcher has played in the construction of knowledge, through an appropriate level of reflexivity, is an important step to understanding these entanglements. This section reflects upon the researcher's career, the challenges and opportunities this brought to the study and some of the steps taken to mitigate potential problems.

The researcher was a senior figure in the sell-side analyst field for many years, including during the data collection phase of this study. Soon after data collection finished the researcher left the field to focus on a career in academia. During the years in the field, the researcher spent over seven years as an accounting and valuation analyst at two large investment banks. This involved the production of research reports and extensive marketing to clients. Over time this role transitioned into a research management position, ultimately resulting in the researcher being appointed head of research in a leading European investment bank. In this management role, the responsibilities shifted to managing a large group of sell-side analysts, as well as dealing with research quality, compliance and strategy issues. In total the researcher spent over 13 years in equity research.

The close proximity of the researcher to the field has brought challenges and advantages to the research project. The challenges emerge from the inevitable risk of prejudging data collected from interviews and the risk that the involvement of a senior professional would prejudice the contributions of interview participants. The main advantage has been the strong access to sell-side analysts, clients, companies and salespeople through a long established network of contacts. Access is almost always a problem in management research (Alvesson and Deetz, 2000, p.192) and gaining the consent of analysts to participate in academic work is notoriously difficult (see for example, Schipper, 1991, p.105) so this unusually high quality access has been a major asset in undertaking this study. However, the advantage of this privileged access needs handling in an appropriate and sensitive manner to ensure quality data and that consent was freely given.

A number of decisions flowed from this. Firstly, despite the access opportunities within the researcher's department, all of the in-depth interviewing was conducted with analysts who work at other institutions. This is particularly important given that the interviews would require the researcher to delve deeply into a range of work related issues, and thus place a significant burden on the participants to explain themselves (Agar and MacDonald, 1995). The pilot phase and background focus groups were conducted within the researcher's department. For the focus group phase, it was felt that the group setting would diminish greatly the risk of significant bias, as the open discussion would be less personal and intimate. In addition, the

topics were familiar and non-controversial. Furthermore, and to enhance reliability, a “low moderator involvement” style was employed (Morgan, 1997), the details of which are discussed below. Careful notes were taken at each focus group session for any signs of hesitancy or discomfort amongst participants. None were noted.

An interpretive philosophy embraces the social constructivism intrinsic to the research process. The researcher’s intimate knowledge of the specialist field enabled a sophisticated level of discourse with senior actors in the field during the interviews. Contemporaneously, the researcher was conscious of his position, as a senior professional, vulnerable to prejudgment and confirmation bias. However, the inevitable entanglements referred to above meant that, even if deemed desirable, it was impossible to unpick the “researcher and the research act” completely (De Loo and Lowe, 2017, p.1798). Therefore, reflecting on these matters continued throughout the research process.

4.6 DATA COLLECTION METHODS

Any choice of research design is a balance of philosophical fit, practical feasibility and, ultimately, suitability to supply valid and reliable evidence in addressing the research question. The chosen design here is no different and reflects these factors and concerns.

Focus groups and interviews were the chosen methods for this study. These are appropriate choices for interpretive based research given its concerns with “understanding social reality as a construction of the individual participants” (Lee and Lings, 2008, p.65). Whereas semi-structured interviews are often the sole data source for a qualitative project (Brinkman and Kvale, 2015), this study combined such methods with focus groups and also some documentary analysis. The objective, explained further below, was to use documentary analysis for context, focus groups to gain access to a more diverse range of experience and opinion, and then for interviews to delve more deeply into the individual. This included exploring how they experienced and made sense of key decisions as analysts, something that would not be suitable for focus groups given the more public nature of the process (Brinkman and Kvale, 2015).

4.6.1 Overview of design and data collection

As shown in Figure 4.2 below, the research was structured in three stages. Firstly, a preliminary (pilot) stage consisting of a single focus group and a small series of interviews was undertaken to aid the design and successful implementation of interview protocols and focus group plans. After a period of reflection and further planning, the second stage (focus groups) and third stage (in-depth semi-structured interviews) were conducted. All participants

were professional sell-side analysts, falling into an age range of mid-twenties to mid-fifties, recruited purposively from work related contacts. All participants were provided with an information leaflet and signed a consent form prior to their participation.

4.6.1.1 Preliminary stage - Interviews and a focus group

This short phase consisted of a small number of interviews (three) and a 'pilot' focus group. The purpose was to ensure the effective planning and design of interview and focus group protocols, as well as to provide the opportunity to reflect on the ultimate integration of focus group and interview data. This stage also allowed the researcher to hone issues around timing and logistics as needed.

4.6.1.2 First main stage - focus groups

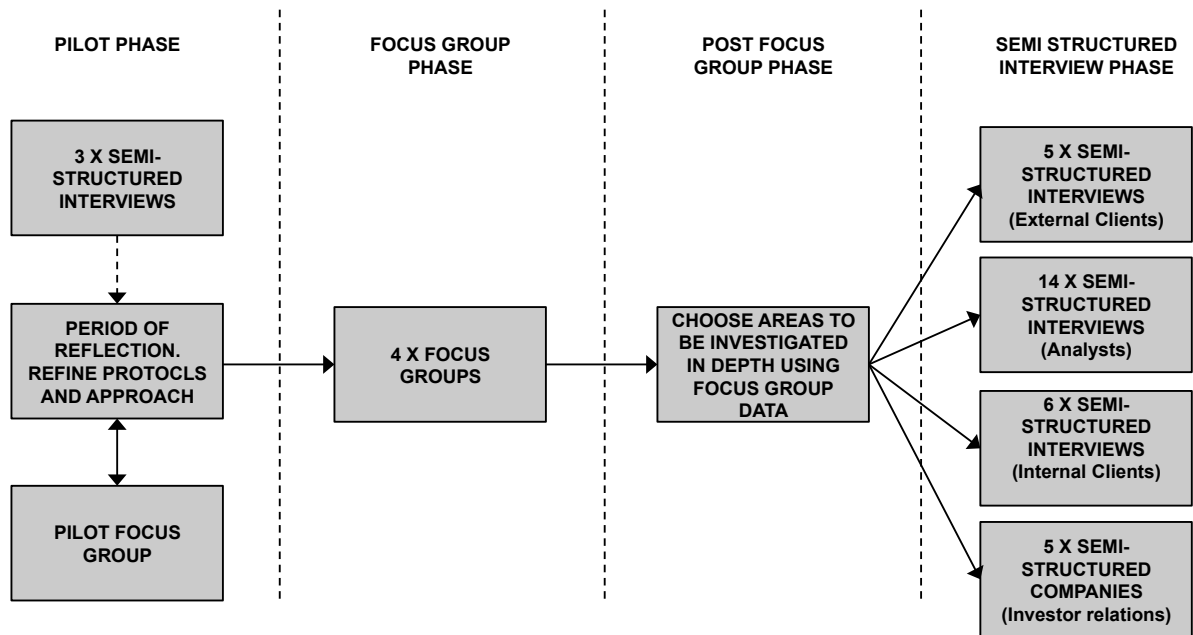
The pilot focus group operated in a very similar fashion to the four groups in the main phase. All groups had four participants. Focus groups are especially useful for observing group interaction, stimulating broad range discussions and establishing key areas that can subsequently be investigated in more depth at the interview stage (Lambert and Loiselle, 2008). In this study advantage was taken of all three of these attributes.

4.6.1.3 Second main stage - semi-structured interviews

The final method consisted of 30²⁴ in depth semi-structured interviews to understand the sociological context and lived experiences of analysts as they undertake their professional work, and to refine, explore and reflect further on the data produced during the focus groups.

²⁴ There were an additional 3 interviews in the validation phase of the research described more fully in Section 4.12 and Appendix 5.

FIGURE 4.2. RESEARCH DESIGN FOR FIELD STUDY



4.7 CRITICAL DESIGN DECISIONS

There are a multitude of decisions that need to be made as a researcher settles on a particular research design. As the research progressed, details of the rationale for these planning and implementation decisions were recorded in short notes and uploaded to NVivo. An example is included in Appendix 7. These decisions can be delineated into those that are conceptual in nature and apply across all phases of the research study, and those that relate to more practical or logistical matters specific to data collection. In this section we examine the former and then address the ‘phase-specific’ practical issues in Section 4.8 below.

4.7.1 Use of multiple methods

The competent use of multiple methods within a single study does have advocates (see, for example, Morse, 2002). However, it is important to be explicit about the specific value-added contribution of each method (Lambert et al, 2008). Focus groups have been found to be particularly useful at cataloguing a range of participants’ experiences, with interviews contributing more personal detail of these experiences (Lambert et al, 2008). Therefore a combination can add depth to chosen topics arising during the wide-ranging focus group discussions (Morgan, 1997). Lambert et al (2008) found the analysis of data across both methods facilitated:

“a productive iterative process whereby the initial model of the phenomenon guided the exploration of individual accounts’ and that ‘convergence of the phenomenon across focus groups and individual interviews enhanced trustworthiness of findings”.

(Lambert et al, 2008 p.228)

This matches closely with the researchers’ own expectations and objectives for employing this design. Focus group data was used to generate a range of views, apply a wider angled lens and help determine the most pertinent questions to be further explored during individual interviews (Lambert et al, 2007 and Morgan, 1997).

A relevant example for this study is given by Stones (2005) in his discussion of the application of strong structuration theory. He identified a risk to researchers that, if their focus is too narrow, they may overlook structural clusters that are in fact highly relevant to understanding the phenomenon under investigation. Restricting the research methods to semi-structured interviews would arguably expose the researcher to this risk, given the focus on individual experiences and perspectives inherent in the method. Conversely, the broader range and scope of focus groups discussions would aid in the identification of “diverse structural clusters of position-practices” (Stones, 2005 p.124) and hence minimise this risk. This was consistent with the actual experience of running the data collection phases.

The interviews were targeted at collecting evidence about the opinions and experiences of individuals, thus enabling a finer grain of analysis, with a more hermeneutic and phenomenological sensitivity, in comparison with the focus group evidence. In addition, although triangulation is a complex issue when it comes to qualitative research, the fact that data may be “similar, different or complementary” from each method “is useful to understand different representations of the phenomenon” (Lambert et al, 2007 p.235) and enhance trustworthiness of the findings.

4.7.2 Documentary analysis

In addition to the interviews and focus groups, the research also included reviewing an extensive range of documents including relevant press articles, media and consultant reports, research reports, job advertisements, textbooks, and regulation and legislation relevant to the work of analysts. This review process was concentrated at the start of the research but continued throughout. This provided an essential backdrop to the discussions with analysts and others in the network.

4.7.3 Epistemology

It is crucial for there to be clarity regarding the type of knowledge that an interview or focus group will produce, in other words the epistemological perspective, to ensure interview

questions and guides are crafted appropriately and that data collection is undertaken in a broadly consistent and rigorous manner. Brinkman and Kvale (2015) argued that a successful interview goes beyond mere mastery of practical interview techniques and requires an awareness of epistemological and ethical issues. It has already been stated that this research study is interpretive in its philosophical foundations and therefore, in this study, knowledge takes the form of explanations of how others interpret and make sense of their day-to-day life and social interactions (Yanow and Schwartz-Shea, 2006). It is driven by an interest in the lived experience of people and the meanings attached to that (Seidman, 2013). Smith et al (2009) described this approach thus:

“The approach is empathetic and questioning... trying to see what it is like for someone and also analysing, illuminating and making sense of something.”

(Smith et al, 2009 p.36)

This philosophical and epistemological position requires an open interview style with participants provided with the freedom and opportunity to recount their experiences and develop their thoughts and ideas. The adopted approach was designed to unlock the participants' perspectives and to take their opinions and claims seriously (Smith et al, 2009).

4.7.4 Participant recruitment

In qualitative research, the crucial issue in selecting participants is their potential to contribute to the research question. In this study it was critical that the participants had knowledge and experience of the phenomenon under study. In reality the research question, with its focus on how analysts understand and make sense of decision making around rating changes, demanded that the individuals in this study were, or had recently been, research analysts. Given the rich, practical nature of the discussions to take place, and the need for participants to draw on personal experiences, only professional sell-side analysts could satisfy the required contribution for the agents in focus. Similarly, especially for the in-depth interviews, experienced professionals were needed to make the required contributions from the agents in context. Therefore, a number of criteria were applied to those approached to participate. This included the following critical ones:

4.7.4.1 Work experience

For the sell-side analyst focus groups, each group was organised around specific work titles. To ensure rich data for the interviews, research was restricted to individuals holding one of the three senior level analyst titles – Vice President, Director and Managing Director. The 14 analysts had between seven and 22 years of experience with a mean of 12.7 years and a median of 13 years of experience.

For the agents in context, snowball techniques were used to find participants with the criteria set out below. For the company interviews, employees with extensive investor relations responsibilities were sought in listed organisations who had direct contact with analysts. For the salespersons, recruitment focused on senior level (Vice President and above) who were working, or had very recently worked, in a sales role with extensive analyst contact. Lastly, for the clients, the focus was on gaining access to senior buy-side analysts or portfolio managers who again had extensive experience of dealing with sell-side analysts.

4.7.4.2 Organisation

Although sell-side analysts mainly work in investment banks, they are also employed in a variety of different types of organisations including independent broker houses and smaller specialist research houses. The research efforts, in the main, focused on those with experience of being analysts in investment banks. This is not to diminish the importance of the other groups, but those employed in investment banks face a wide range of conflicts of interest that do not apply to the same degree in some of these other types of organisation.

4.7.4.3 Division

Within the investment bank in question individuals needed to work in the equity research divisions, rather than other research functions such as fixed income, economics or foreign currency.

Consistent with the broader principles of qualitative research, randomised statistical sampling did not play any role in participant recruitment in the study. Purposive sampling was used to drive the initial participant recruitment, coupled with the use of snowballing techniques. In general, it is very difficult to gain access to professional analysts such as those mentioned above (Schipper, 1991). The researcher's role as Head of Research and his extensive industry contacts and experience in the industry were critical in recruiting the sample of participants for the study. The approaches employed for both the focus groups and in-depth semi-structured interviews are set out in the relevant sections below.

TABLE 4.1. ANALYST SEMI-STRUCTURED INTERVIEW SCHEDULE²⁵

Analyst Reference	Organisation	Interview length (mins)	Title	Analyst experience (years)	Sector
1	US Bulge	57:58	Director	19	Multi-Industry
2	Euro Mid	38:57	Director	16	Cap Gds
3	Euro Bulge	45:12	Managing Director	22	Banks
4	Euro Bulge	43:39	Managing Director	15	Banks
5	Euro Bulge	42:01	Director	7	TMT
6	US Bulge**	46:21	Director	12	TMT
7	US Bulge	40:19	Director	15	Autos
8	Euro Bulge**	43:10	Director	7	Insurance
9	US Bulge	51:40	Managing Director	16	Consumer
10	Euro Mid	36:00	Director	13	Multi-Industry
11	US Bulge	33:00	Vice President	9	Media
12	Euro Mid	37:00	No titles	8	Consumer
13	US Ind.	50:23	Vice President	11	Banks
14	US Bulge	43:33	Vice President	9	TMT

4.7.5 Approach to recording and transcription

All interviews and focus groups were recorded with the formal consent of the participants. The recordings were made using a small, discrete digital device and a back-up smart phone. Additionally, the researcher recorded field notes to aid recall and to ensure any unusual matters were noted, although all sessions ran very smoothly. Given the low moderator model adopted for the focus groups, video recording, which is often very useful considering the

²⁵ Additionally, 16 agents in context were interviewed across clients, salespeople and corporate officers and 3 analysts were interviewed as part of the research validation process. 'Bulge' is the informal name given to very large full-service investment banks. A mid-tier bank would cover a wide range of activities but its scale and scope would be significantly smaller. Independent research houses are not part of broader investment banks.

** Interview conducted by phone.

difficulties of audio when more than one individual is involved, was rejected as being too intrusive. Recording, in the main, was done to allow the researcher to “concentrate on the topic and the dynamics of the interview” and to facilitate returning to the original audio “again and again for re-listening” as required (Brinkman and Kvale, 2015, p.204).

Recordings of all interviews and focus groups were transcribed. Transcription is far from a straightforward task given that people rarely speak in “neat, distinct sentences” (Brinkman and Kvale, 2015). Transcribers must make many important judgement calls and so the risks related to transcriber reliability and validity had to be addressed by the research study. An external firm was engaged in order to maximise transcriber reliability. It had extensive expertise in transcribing interviews and focus groups undertaken for academic purposes. The researcher also agreed the firm’s approach to writing up the text in advance, in an attempt to maximise reliability and validity (Brinkman and Kvale, 2015). This guidance included clarifying that scripts should be verbatim, recording all words spoken during the sessions. If at any point the audio was unclear, this was noted for follow up. The transcriber was also provided with an extensive list of technical terms that might crop up in the interviews to aid translation. When transcripts were returned, the researcher listened to the original recording whilst reviewing the transcript to ensure it was a fair and reasonable record of the interview. There were a number of edits required in these reviews, predominantly relating to the mis-transcription of unfamiliar technical terms. After each batch of edits the list of technical terms would be expanded and returned to the transcribers. Over time the level of required edits fell dramatically.

4.8 DATA COLLECTION PHASES

As set out above, the data was collected in three phases, namely a pilot phase, a focus group phase and an in-depth semi-structured interview phase. The major decisions around practical choices and arrangements are discussed below.

4.8.1 Pilot phase

Van Teijlingen and Hundley (2002) have suggested that a key advantage of including a pilot study as an integral component of research design is it can provide an “advance warning” of where a project might fail. A pilot study mimics the proposed research design except with a much smaller number of participants. Therefore, in this study, the pilot study consisted of a single focus group and three in-depth interviews with experienced analysts.

The crucial contribution of the pilot phase was to ensure the interview and focus group protocols were workable and realistic, including practical issues about timing and logistics. Furthermore, it was important to practice interview techniques as used in qualitative research.

Finally, it provided the opportunity to conduct a 'trial run' of some of the analytical procedures which had been planned for the full study.

The content of these pilot interviews also impacted on the subsequent focus of the research. For example, the discussions on analysts' use of accounting information did not produce especially interesting data and so this was dropped from the project. On the other hand, regulatory matters were given significant emphasis and so became more important in the study.

4.8.2 Focus group phase

Focus groups are often referred to as group interviews and, in some ways, this encapsulates the basic structure perfectly. However, the critical hallmark of such groups is the overt access they provide to group interaction and broad debate, evidence that would be much more difficult to obtain in another setting (Morgan, 1997). The reasons for using focus groups were set out in Section 4.5, but to reiterate they include gaining access to a wider range of views than is possible in an in-depth semi-structured interview, gaining an understanding of areas of contention and consensus amongst participants and providing some guidance on areas for more detailed follow up during the interview phase.

The critical design choices for the conduct of the focus groups are set out below.

4.8.2.1 Number of groups & group size

Morgan (1997) argued that three to five focus groups is typically adequate to reach the point of theoretical saturation and this advice was followed here. Morgan (1997) suggested a group of six to ten members, and for complex topics, to err on the smaller side. Peek and Fothergill (2007) suggested that smaller groups are preferable given the difficulty of managing and facilitation. It was clear that the topic under investigation in this study is complex and multifaceted and so smaller group sizes of four were used.

4.8.2.2 Participant recruitment

Morgan (1997) advised that the group composition should embrace two key factors. The first is that individuals know something of the topic. The recruitment of sell-side analysts in practice dramatically diminished this concern. Secondly, individuals should be comfortable discussing the issue with others in the group. The particularly salient points in this regard are that groups should not cross authority nor status lines.

Given these factors, the decision was made to employ a segmentation strategy on the composition of the groups. The groups were segmented according to seniority using corporate titles. The pilot focus group consisted of four Vice President level analysts, focus group 1 was made up of Associates, focus group 2 of Analysts and groups 3 and 4 of Vice Presidents and Directors. In addition, no analysts who worked together on the same sector team were part of the same focus group. An email invitation was circulated to a broad range of individuals to seek volunteers. Individual analysts who indicated their willingness to be involved were placed in a pool of potential participants and, based on the segmentation strategy outlined above, were allocated to focus groups. All analysts were assured both formally and informally that they could withdraw at any time.

4.8.2.3 Moderation

Given the desire to run a number of focus groups, the decision was made to recruit participants from the employing company of the researcher. To minimise any issues of unwelcome influence, the sessions were moderated using a “low moderation model” as set out by Morgan (1997 p.52). The first aspect of this approach was the provision of upfront specific guidance at the commencement of the session. This guidance covered the broad topics to be discussed and what to do if the conversation stopped, but also expressed the hope that everyone would contribute, and that the objective was to hear as many different perspectives as possible. This meant that the subsequent involvement of the moderator was minimal. Participants were asked to introduce themselves for the record, although no direct reference to the individual identities has been made in this thesis. After the initial introduction, the moderator’s role was to observe anything that could not be noted on the audio record, such as body language, subtle hesitation etc. In addition, the moderator provided a gentle nudge of encouragement as needed.

4.8.2.4 Use of a topic guide

The focus group was structured around broad topics rather than detailed questions, consistent with the low moderation model mentioned above. The use of a guide facilitated a more consistent and reliable approach across all of the focus groups (Peek and Fothergill, 2007) but also encouraged interaction and debate. The topic guide is reproduced in Appendix 3.

4.8.3 Semi-structured interview phase and interview guide

The evidence from the focus groups was used, at least in part, to identify interesting avenues to pursue in the in-depth interviews. The interviews were semi-structured in approach utilising

a prepared interview protocol (Bryman, 2012) which provided for the “likely content of the interview” (Smith et al, 2009, p.58).

The semi-structured format facilitates posing a series of questions, but in no fixed order. Additional questions may also be asked, as the interviewer deems appropriate (Smith, 2003). Semi-structured interviews allow a good balance between ensuring there is sufficient opportunity to explore issues without having to address extraneous matters outside the scope of the research project. This was especially important given the limited time that was available with the analysts. However, it was vitally important that there was sufficient flexibility to achieve a rich data set. Thin data could have presented real challenges for the full application of an interpretive approach. A slightly different form of the protocol was used for each of the different clusters interviewed to ensure the questions were appropriate given the individual’s specific role. The key decisions made on the conduct of the interviews are set out below.

4.8.3.1 Number of interviews

Seidman (2013) suggested that there are two key issues involved in answering the ‘how many?’ question; sufficiency and saturation. Sufficiency refers to whether there are enough participants to capture the required levels of variation in any purposeful sampling effort. The inclusion of analysts across a diverse range of banks and sector specialisations ensured the sufficiency criterion was satisfied. The second issue is saturation, in other words at what point do researchers cease to learn something new from their interviews? During the interview process the researchers were cognisant of reaching a point of ‘saturation’ where further interviews would not produce incrementally useful evidence. The original proposal was to undertake ten in-depth individual interviews with analysts. After conducting the first ten interviews it was decided that a further four would be scheduled. After these, it was clear that, while individual experiences will never completely overlap and align, there was significant saturation.

4.8.3.2 Interview conduct and guide design

A number of broad guiding principles provided the framework for the design of the interview guide. Firstly, and as discussed above, the epistemological foundation shaped the style and mode of enquiry. So questions for this study were typically more open ended and exploratory than might be expected in a more positivist orientated interview. In addition, to embrace the interpretive hermeneutic and phenomenological foundations, appropriate questions needed to elicit the personal experiences of the analyst, rather than simply conceptualise about issues in general. Secondly, different kinds of interview questions were needed to elicit data rich enough to apply theory (Brinkman and Kvale, 2015). For instance, in this study, opening the

interview with questions that sought to unearth the habitus or dispositional framework provided both a useful 'warm-up' as well as much needed evidence to apply strong structuration theory.

The critical objective was for the guide to aid the flow of the interview and facilitate participants sharing their experiences and speaking at length. Smith et al (2009) recommended starting an interview by explaining two matters. Firstly, that the researcher is interested in them and their experiences. Secondly, that the interviewer will say very little and the participant should take their time, formulate their ideas and expect to be listened to. The questions in the guide were open and expansive and exhibited dynamic and thematic dimensions (Brinkman and Kvale, 2015). Namely, some questions were included mainly to enhance the flow and relationship in the interview (dynamic) whilst others were more directly to unearth knowledge (thematic). The questions were initially framed in terms of formal theoretical language but then transformed into the everyday vernacular of the participants for the purposes of the interview (Brinkmann et al, 2015). Appendix 4 sets out the interview protocol which guided the conduct of each interview.

Seidman (2013) suggested a number of practical points that were reflected in the conduct of the interview series. To encourage an open, natural flow, Seidman (2013) proposed starting the interview with rapport building questions that cover familiar areas of focus. Such questions avoid the risk of delving deeply into the experiences of the participant before there is a comfortable and safe context for sharing more personal content. Seidman (2013) also suggested that it was important to conclude the interview with an open-ended question about whether the participant has anything else to add.

Finally, directly after all interviews, a period of time was scheduled to edit or record field notes of observations, thoughts and impressions from the interview. These included logistical details such as time, location and physical space, which are important to aid recall subsequent to the interview. In addition, the demeanour of the participant, any interruptions to the interview and whether any unusual topics had arisen in the discussion were also noted. These details also provided useful context during the analysis phase when examining the transcripts. An example of a field note is included in Appendix 6.

4.9 EMBEDDING ANALYSIS IN DATA COLLECTION

Qualitative research, especially that involving methods such as focus groups and interviews, produces voluminous data, typically with little structure, in a narrative format. For many researchers this may be overwhelming. Although this challenge cannot be avoided, there are some practical steps that can be implemented in the design phase to aid subsequent analysis. A consideration of how interviews will ultimately be analysed after data collection can inform

the “preparation of the interview guide, the interview process and the transcription of the interviews” (Brinkman and Kvale, 2015 p.216). This way of thinking was integrated into the design. The use of a flexible but clear interview guide, with identifiable phases of questioning reflecting relevant theoretical concepts, provided an analytically useful structure for subsequent coding. During the interviews the clarification of key points was sought to ensure meanings were as lucid as possible, without the adoption of an overly deterministic or leading manner. Transcripts were prepared under the researcher’s guidance in a consistent manner as discussed above. The structure of the transcripts was carefully considered in relation to the use of computer-assisted techniques of analysis.

4.10 DATA ANALYSIS

The analysis of qualitative data is often challenging as there are fewer established, accepted processes compared to quantitative data (Bryman, 2012). The interpretive philosophy at the heart of this study directed much of the detailed analytical effort, concerned as it is with making sense of participants’ experiences. Consistent with the recommendations of Coffey and Atkinson (1996), the analysis of the interview data began as soon as the interviews commenced to ensure findings and thoughts were always fresh, and to inform, and indeed alter, the course of the subsequent interviews.

The well-established analytical framework of Miles, Huberman and Saldana (2014) was adopted. This consists of four distinct, but interwoven, stages all interacting with each other, as described below. Thematic analysis, as set out by Braun & Clark (2006) and King and Horrocks (2010), was also influential in the analysis phase.

4.10.1 Data collection

The focus groups and semi-structured interviews at the core of the research provided the evidence and data to be analysed. Although the techniques were similar, the analysis of the focus group and interview data were undertaken separately. The focus group data, as well as standing on its own in terms of analysis, also fed into the finalisation of the in-depth interview protocol.

4.10.2 Data condensation

After each session, the recordings were converted into printed transcripts as described previously, and were read carefully in conjunction with listening to the audio recordings. Each transcript was then uploaded into NVivo 11 qualitative analysis software. At this point the descriptive coding process began to achieve data condensation. Coding is the iterative

process by which the narrative data is initially divided into smaller units, such as sentences or paragraphs, of which labels are attached and then subsequently grouped together to form overall themes (Creswell et al, 2011; Braun and Clark, 2006).

The coding strategy, and detailed approach to descriptive or open coding, were discussed at length with the supervisory team. This included looking at early stage transcripts and coding results. Some minor adjustments to the approach were made as a result of these discussions, especially after the pilot interview. This collaboration included going through a sample transcript in detail. A sample of the open coding codebook is included in Appendix 8.

4.10.3 Data display

Miles et al (2014) viewed data display as being a critical path to robust qualitative analysis. Although coding and categorisation are key parts, they do not constitute the totality of data analysis. The analysis must extend to reflection, narrative analysis and data tabulations (Maxwell, 2013) to achieve the levels of rigour required. The various analysis functions within NVivo 11 were instrumental to this including word clouds, word frequency counts, mind maps and coding stripes.

4.10.4 Drawing and verifying conclusions

Conclusions were developed over the course of the data collection, with verification being an on-going process ranging from a quick review of field notes to extensive analysis of original transcripts.

A basic framework emerged from the primary areas addressed in the interviews, such as the opinions of participants about the role of the analyst, which could then be used to group the various ideas embedded in the responses. Clustering or grouping codes followed which involved grouping batches of codes into broader categories, again to achieve data condensation but also to begin the journey towards unearthing deeper meaning in the data. The final stages focused on extensive 'going back and forth' to the data and coding to distil critical themes and consider theoretical reference points. This process continued as refinement was sought for the specifics of each theme and the story it told. Throughout this process, theory and extant literature were interwoven into the analysis.

4.11 ETHICAL ISSUES

Given the involvement of people, interview research is "saturated with moral and ethical issues" (Brinkmann and Kvale, 2015). At the heart of these ethical issues are informed

consent, confidentiality and consequence (Brinkmann and Kvale, 2015). On consent Bryman (2012) pointed out that all interviewees must give written consent. The conduct of this research study followed the requirements of the university ethics committee. Two documents were used to help ensure it was undertaken in a professional manner. Firstly, interviewee information guides were distributed to each participant describing various critical aspects of the study and the purpose of the interview or focus group, as well as the procedures to be followed in its conduct. Secondly, consent forms were used to gain formal agreement to involvement and recording.

A second major issue is one of confidentiality of the information provided during a particular focus group or interview. For focus groups, given their more open structure, absolute confidentiality is structurally impossible. Instead the emphasis in this study's focus groups was on maintaining anonymity, in so far as is possible, when referring to the focus group transcripts in subsequent reports. In addition, encouraging participants to treat the contents of the discussion as confidential was emphasised. Confidentiality in its fullest scope could be applied to the interview phase. This encompassed never referring to participants' identities in any circumstances. Care was also taken with subsequent coding and analysis that might enable linkages to be made to the interviewee. Integral to all of this was the safe storage of transcripts and audio files for all of the focus group and interview content using appropriate physical and password protection procedures.

A third issue is the danger/discomfort a participant might experience. Although the risk is low in this type of research it was made explicit that if any participant was uncomfortable at any point during the interview or focus group they could withdraw.

4.12 VALIDITY

There are a number of ways to assess the quality of qualitative enquiry, most of which are based around the concept of validity. Maxwell (2013) identified two major threats to validity that need to be anticipated and considered in a research design. The first is researcher bias. Here Maxwell referred to two sources of threat; the researcher selecting data that supports his own views or theories, and the selection of data that stands out to the researcher. As previously discussed, the entanglement of the researcher in a qualitative study is unavoidable, and may produce not only concerns about undue influence but also significant benefits. However, there remains a need to understand, reflect and mitigate this bias, rather than passively accept it.

The second source of validity threat is reactivity. This is explained by Maxwell (2013, p.124) as "the influence of the researcher on the setting or the individuals studied." Maxwell (2013)

suggested that interviews are especially vulnerable to such validity challenges. He stressed that while researcher influence cannot be removed from a qualitative research project, it needs to be understood and addressed in order to increase the validity of the main conclusions of a study.

How can these threats be addressed? A coherent research design that embeds data collection methods suited to the research question is fundamental to establishing credibility. Additionally Maxwell (2013) and others have provided checklists to help ensure that a valid application of a method is achieved. Relevant parts of the checklist from Maxwell (2013, p. 126-128) were used in this project to address the validity threats. These are set out in Table 4.2 below. Central to these research validity checks were three structured interviews with experienced analysts to gather their reflections on the main findings of the study. Further details are included in Appendix 5.

TABLE 4.2. VALIDITY MATRIX

THREAT TO VALIDITY	STRATEGIES FOR DEALING WITH THREAT
<p>Reactivity – focus groups In-house focus groups may inhibit honest and faithful contributions from participants.</p>	<ul style="list-style-type: none"> • Separate focus groups for each analyst title removes potential pressure from supervisor • Low involvement moderation approach sought to diminish influence • Open ended discussion ‘topics’ rather than specific detailed questions used • Use of pilot focus group to anticipate problems and issues • Focus groups did not deal with sensitive or contentious matters • Field notes from focus groups identify the sessions as open, energetic and widely participative • On certain matters common to both focus groups and interviews, triangulation of data • Main role for focus groups as backdrop to the semi-structured phase.

THREAT TO VALIDITY	STRATEGIES FOR DEALING WITH THREAT
<p>Reactivity – interviews Interviewees may not be honest, open and faithful in their contributions.</p>	<ul style="list-style-type: none"> • Full pilot interviews with detailed transcripts and data analysis used to anticipate problems • Participants from a wide variety of financial institutions • All participants are experienced professionals and very unlikely to be intimidated or heavily influenced • Rapport building general questions at the start of every interview to put participants at ease • Open question approach so participants were encouraged to freely express their views.
<p>Researcher influence The researcher may impose his own personal views and biases on the analysis and results of the research beyond what would be desirable.</p>	<ul style="list-style-type: none"> • Involvement of supervisory team in reviewing coding approach • Reflecting at length on ways the conclusions could be wrong • Respondent validation via three senior analysts reviewing the findings and providing feedback. • Rich data through extensive interviewing across analysts in different sectors and different investment banks • Discussion of conclusions at numerous conferences and internal university presentations • Use of a circular design embedding a priori theory to sensitise the researcher to conclusions outside his own personal opinions.

4.13 CONCLUSION

This chapter has set out the key ingredients for conducting the research project, namely ontology/epistemology, the theoretical perspective, the methodology and the chosen data collection methods.

In ontological and epistemological terms the research adopted a social constructionism orientation. This position reflects a belief that knowledge is co-constructed, “what exists is what we perceive to exist” (Burr, 2015, p.3). In this thesis this means that the understandings analysts have of their social environment and their practices is co-constructed with the researcher.

The theoretical stance is interpretivist. This is an appropriate paradigm to address the research question, with understanding the experiences of the participants at its core. It gives primacy to experiential knowledge and the understandings of practitioners about their work.

The approach emphasised hermeneutics, consistent with the theoretical framework of strong structuration theory at the heart of the project.

A field study methodology was utilised. Consistent with the composite strategy in strong structuration theory, interviews were extended beyond the agent in focus to the agents in context. To operationalise the project, data collection was based around focus groups and semi-structured interviews. The focus groups provided a range of opinions and highlighted areas of disagreement and consensus. This evidence in turn influenced the content of the interview protocols used to structure the individual interview stage. The interviews allowed a more nuanced and intimate investigation of the lived experiences of the analysts. Practical and logistical decisions made during data collection and analysis were summarised and justified.

The chapter included reflective thoughts about the role of the researcher in the study given his previous involvement in equity research. This included the steps taken to balance the level of influence he could have had on participant accounts, whilst also embracing the advantages in terms of knowledge and access that the legacy position provided.

Clarity around all of these matters underpins research design choices and, ultimately, the nature of the claims made by the research.

Chapters 1 to 4 have established a detailed foundation to undertake the empirical analysis. Over the next three chapters the study will follow the bracketing approach of strong structuration theory beginning with context analysis in Chapter 5, conduct analysis in Chapter 6 and then active agency and structuration cycles in Chapter 7.

CHAPTER 5.
FINDINGS I:
AGENT'S CONTEXT ANALYSIS

5.1 INTRODUCTION

“I’d say the European guys take it personally, get very offended and in some cases cut you off, cancel road shows, that kind of thing. It doesn’t make the final decision, but in the back of my mind, I’m always thinking, ‘They’re going to be really annoyed when I do this’.”

(Analyst 11)

The approach to data collection and analysis is set out in Chapter 4. Chapters 5 and 6 explore the significant findings and themes arising from the study. The structure of these chapters reflects the two building blocks intrinsic to strong structuration theory, agent’s context analysis and agent’s conduct analysis. Choosing to address the problem in this way embeds the methodological bracketing proposed in strong structuration theory by Stones (2005). The chapter commences with some further thoughts on methodological bracketing before moving on to the nature of agent’s context analysis. The following four sections cover the principal findings. The first, positioning, identifies and maps the critical clusters of agents in context and describes the time-space characteristics of the analyst field. The practices of analysts are addressed, specifically the primary obligations and prerogatives of the position. The concluding sections cover relationships of power and dependency in the position-practices network and matters of trust. The chapter concludes with the key findings to bring to the agent’s conduct analysis in Chapter 6 and the integration of all four parts of the quadripartite structuration model in Chapter 7.

5.2 METHODOLOGICAL BRACKETING IN STRONG STRUCTURATION THEORY

As mentioned in Chapter 3, methodological bracketing refers to blinkering out certain aspects of a phenomenon under investigation to allow the researcher to focus more sharply on one part of the problem. The researcher can then return to the de-emphasised area in the next phase of bracketing. Although both Giddens (1984) and Stones (2005) recommended employing methodological bracketing when undertaking structuration studies, they did so in different guises. Giddens (1984) proposed bracketing along the lines of institutional analysis and strategic conduct analysis. Whereas the latter is broadly consistent with Stones’ approach, Giddens’ form of institutional analysis effectively “brackets out the way that agents perceive and draw upon their structural context” (Stones, 2005, p.44). Viewing institutions as “chronically reproduced rules and resources” (Giddens 1984, p.375) entails a removal of agency. It re-opens the door to the analytical dualism surrounding structures and agency, the avoidance of which is central to structuration theory. Stones (2005) supported the idea of using bracketing but refined the approach. In particular, in his interpretation of agent’s context analysis, Stones described it as going “from the actor outwards into the field” (Stones & Jack,

2016, p.1148). Such a form of contextual analysis maintains respect for the importance of the phenomenology of agents.

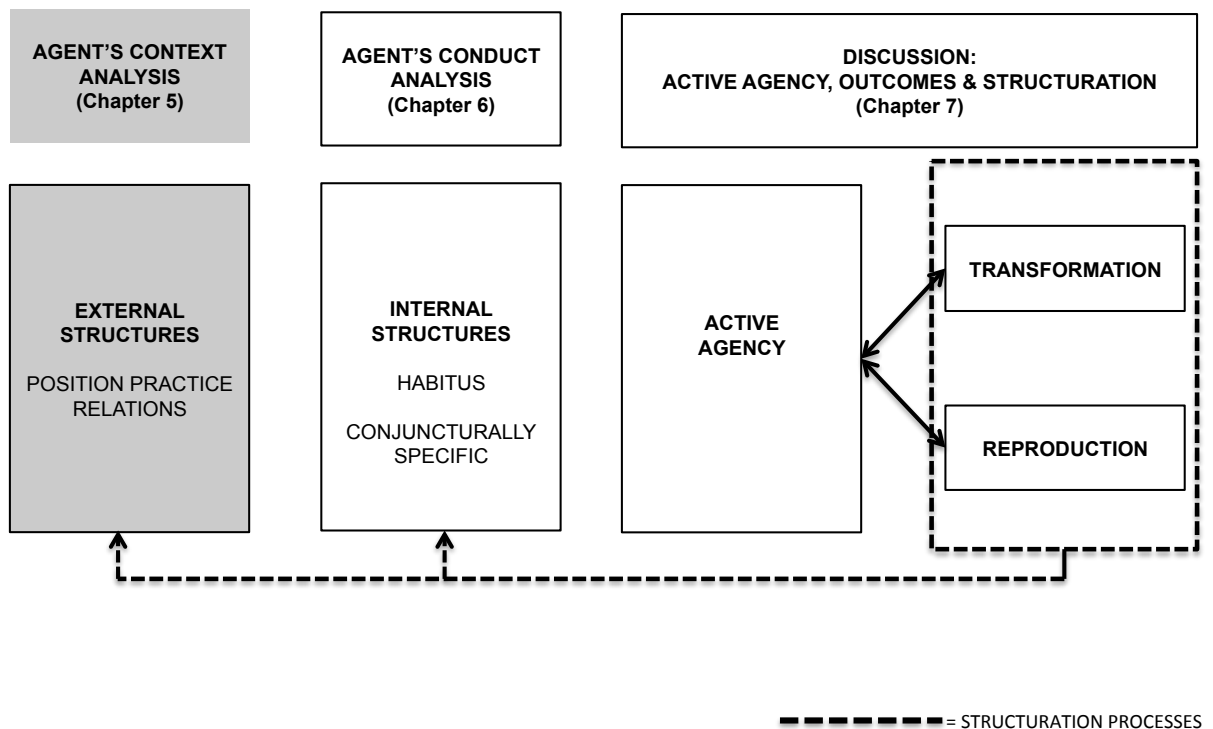
The specific conjuncture under investigation in this thesis is the stock rating decision. The context for these decisions, analysed through agent's context analysis, is the subject of this chapter. Consistent with the research process outlined by Stones (2005), agent's context analysis will act as an input into the considerations of agent's conduct analysis in Chapter 6:

“Conduct analysis is thinking, once they’ve got that information from context analysis, ‘what do they do with it?’”

(Stones & Jack, 2016, pp.1148-9).

The overall structure, originally set out in Chapter 3, is illustrated in Figure 5.1 below.

FIGURE 5.1. QUADRIPARTITE MODEL OF STRUCTURATION



5.3 AGENT'S CONTEXT ANALYSIS

Society is reproduced and transformed through every social encounter, which creates and recreates it afresh (Giddens, 1976). Given this ontological position, understanding the terrain in which social interaction occurs, with its inevitable features of constraint and enablement, is integral to the application of structuration theory. As mentioned previously, Stones (2005) advocated the bracket of agent's context analysis for this task and was of the view that strong structuration theory simply cannot be “operationalised adequately” without agent's context

analysis (Stones, 2005, p.123). To achieve the levels of understanding needed about analyst practices, the research must go beyond surface-level investigations of analyst outputs, such as earnings forecasts and written reports, vital as they are, and examine the dominant characteristics of the analyst social environment or field. The concept of field was originally proposed by the French sociologist, Pierre Bourdieu. He saw a field as the social space in which social praxis takes place, with “social positions occupied by agents (people or institutions) and what happens on/in the field is consequently boundaried” (Thomson, 2012, p.67).

In strong structuration theory, Stones (2005) referred to this social space as the network of position-practice relations although he has also used the term contextual field (Stones, 2015). There is broad consensus that an analysis of position-practice relations is a critical component to examine in structuration-based studies (for example, Cohen 1989; Giddens 1984) and more particularly when employing strong structuration theory (for example, Stones 2005; Stones 2015; Coad and Glyptis 2014; Moore and McPhail 2016). In practical terms, what does this entail? Stones (2015, p.27) suggested the critical elements of contextual analysis included a “mapping of the primary Institutional and individual actors, networks, forces, pressures and dynamics relevant”. Stones (2015) emphasised the importance of relations of dependence and independence to providing concrete evidence about what various actors have to gain or lose. Cohen (1989) saw the identification of prerogatives and obligations as central to the position-practice relations framework.

Coad and Glyptis (2014) expanded on the work of Cohen (1989) and Stones (2005) when setting out their position-practice perspective in a case study of a joint venture (Coad & Glyptis, 2014). Their comprehensive approach involved mapping the network of position-practice relations that confronts the agent in focus, consideration of the deployment of sanctions, acts of communication and power, as well as consideration of issues of trust and capability. Coad & Glyptis (2014) argued that the evidence gathered from investigating these concepts will aid the analysis of structuration processes.

There is an extensive array of ontological concepts within the ambit of strong structuration theory. Many of these would be useful to draw on when dealing with whatever research issue is under investigation. Stones & Jack (2016) encouraged researchers to be discerning about which particular concepts they choose to emphasise. The concepts chosen should be tailored to best deal with the particular problem in hand. This link, between the abstract ontological on the one hand, and the empirical domain on the other, is referred to as conceptual methodology (Stones & Jack, 2016). For this study, it is proposed that the empirical domain within which analysts make stock rating and other decisions can be usefully conceptualised as a field of position-practice relations. Within this framework, added weight has been given to

conceptions of power resources, positional duties and obligations and trust. These concepts are consistent with approaches suggested by Cohen (1989), Coad & Glyptis (2014) and Stones (2005 & 2015) and, based on the field data obtained for this study, are of significance to analysts.

Before directly focusing upon the specific themes in the data, one further point is worth emphasising. Stones (2015) accepts that the social reality facing an agent, such as an analyst, will take on different shapes and tones in particular times and places. However, many of the features being examined as part of contextual analysis in this study can be transferred or transposed from situation to situation as particular conjunctures are examined. In this thesis, we are examining stock rating decisions made by analysts, but the context for such decisions will apply to many other decisions an analyst might make. Therefore, what follows blinkers out the peculiarities of the rating decision as the broader conditions for action in the analyst field are explored. The specificities of the rating decision are outlined in Chapter 6 on conduct analysis.

5.4 POSITIONING WITHIN THE SELL-SIDE ANALYST FIELD

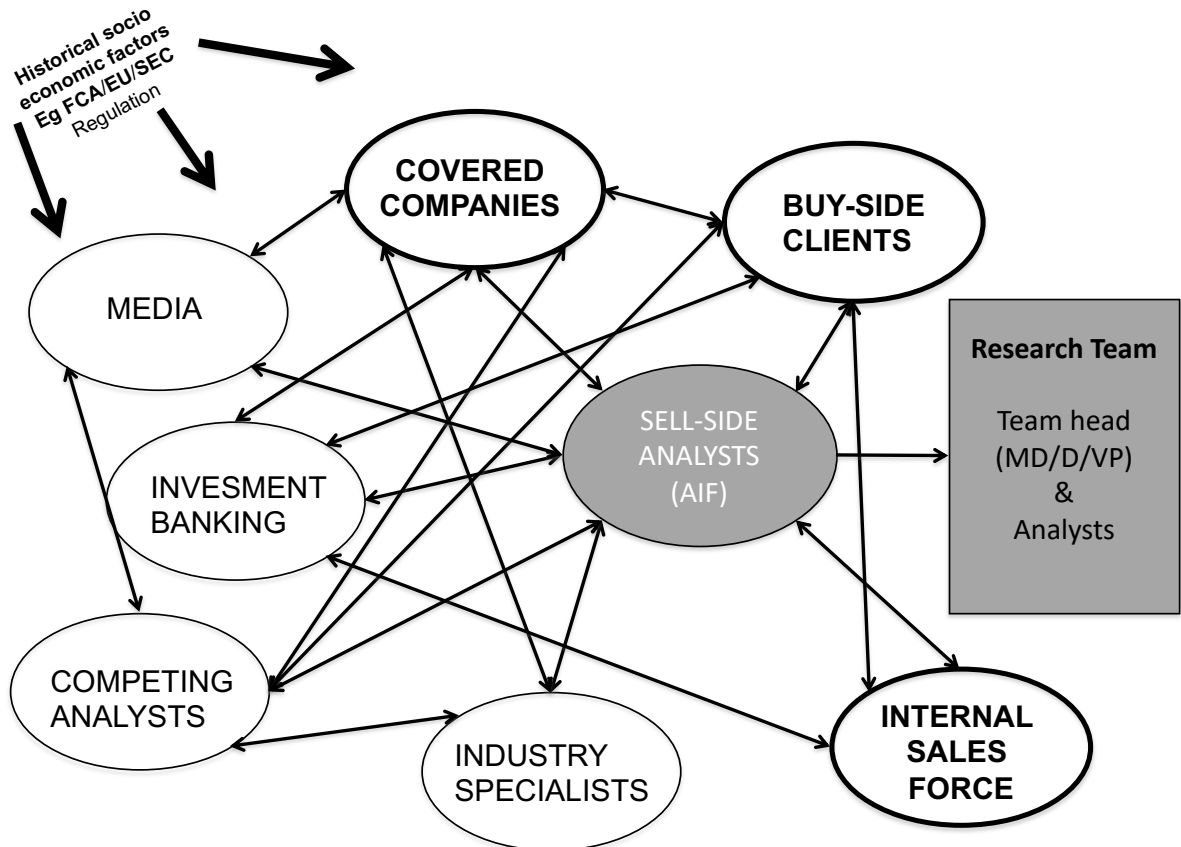
Stones (2015) suggested that to understand a contextual field, evidence on a range of factors should be gathered, such as *inter alia* the actors, both individual and collective, embedded within the field. This allows the positioning of the various primary agents in relation to each other. This primacy could derive from, for example, the frequency with which interactions with the sell-side occur or the perceived influence of particular agents on the work of analysts. Gathering evidence about these agents, and other aspects of the contextual field, involves hermeneutic engagement with actors in the field. Researchers provide their understanding, of “how others understand their situation” (Coad, et al, 2016, p.1140). In positioning agents, concepts of time and space become important to understanding the social environment and these characteristics of the field are examined below.

Before proceeding to themes of time-space and the significance of specific clusters of agents in context, the mapping of the analyst field provides a useful analytical point of origin, illustrated in Figure 5.2 below.

This mapping out of the field configuration is an essential step when employing the position-practices framework. The mapping helps visualise the important clusters of agents in context, buffeting the agent in focus, which represent the external structures facing the agent in focus. In Figure 5.2 the circles represent agents, or more accurately, clusters of agents. The importance of each agent is considered in Section 5.4.2 below. The lines link clusters where there is meaningful contact. Cohen (1989) identified that the intensity of these interactions will

vary from agent to agent. The diagram illustrates that almost all the clusters interact, but the interactions should not be considered as uniform in importance. In addition, macro socio-economic factors that influence the entire field are included in the top left of the diagram. The example included is broad-based regulatory influences on the field from the FCA, the SEC and the EU.

FIGURE 5.2. MAPPING OF AGENTS IN CONTEXT IN THE SELL-SIDE ANALYST FIELD



5.4.1 Time-space

Giddens (1984) identified a number of aspects of time-space to aid the description and analysis of any field. One such aspect is 'locale' which represents "the settings within which interactions occur" (Urry, 1991, p.164). The locale for an analyst encapsulates three different spaces. Firstly, there is the research department itself within the employing organisation of the sell-side analyst. Most analysts are employed by investment banks and operate in a physically partitioned research department as a result of the global settlement (see Section 2.7 for more details). Other analyst research departments operate in smaller, more informal environments such as specialist brokers, which are not investment banks, or much smaller entities that specialise in research and related matters for a specific sector. When considering the terrain occupied by analysts, these smaller entities tend to exhibit less formal demarcation

between the research department and other agents in context. Such demarcation might typically be in the form of Chinese walls:

“I think it varies on the position of the sell-side analyst again, depending on the firm. I think, at a larger institution with strict Chinese walls, the power resides more with the sell-side analyst because they have the power to be independent, it’s backed by their management teams. As long as it’s credible and ethical, they can say things about corporates in a protected fashion. I think power lies with the analyst. I think it’s different, as I say, in smaller firms, because the importance of the corporate to the firm is larger and even with regulation in place, the corporates wield a lot of power.”

(Analyst 2)

From this extract it can be seen that, in different brokerage houses, the space in which analysts operate varies, and crucially, such variation may be indicative of higher risks of conflicts of interest influencing analyst decisions and practices.

At the next level, the focus can move beyond the boundary of the research department into the broader organisation. In an investment banking context, this move would be into a much more sophisticated environment. In contrast, within smaller brokers, the extent of the organisation outside the research department is often much more limited. The final move is beyond the organisational space and into the broader field. Here there is a substantially similar environment facing all analysts irrespective of the size of the broker. It consists of geographically dispersed clients clustered in major metropolitan centres (Groysberg and Healy, 2013).

The second time-space concept is known as time-space distancing which refers to how ‘stretched’ the field is over time and space. The analyst field represents a highly stretched environment with agents in context (clients and corporates) based in cities all over the world. Whereas analysts mostly live and work in a small number of large international cities, the companies they cover, and the external clients they service, are dispersed widely. Such a significant degree of time-space distancing exposes the analyst to a whole raft of challenges. For example, language barriers may confuse companies and clients when they read research reports. In addition, the analyst needs to ensure they respect cultural diversity and attitudinal differences when authoring research reports, especially on sensitive matters such as the competence of senior corporate management.

5.4.2 Agents in context

Consistent with Cohen (1989), this study found that although the relationships in Figure 5.2 registered as relevant with analysts, the level of intensity varied significantly. The evidence collected demonstrates broad consensus about the importance of three groups of agents in

context; investing clients, the companies covered by analysts and the internal sales force. These critical clusters are marked in bold circles in the diagram. Before proceeding to expand on these three agent clusters, it is worth mentioning two points. Firstly, analyst work is generally team based. It is, therefore, no surprise that participants mentioned fellow team and department members as influential and impactful. These research colleagues are agents in focus themselves, so their evidence is reflected in this study through the focus groups and interviews with analysts. Secondly, it is important to consider why other external agents in context were *not* perceived to be as critical, especially investment banking.

A number of participants did mention investment banking as an important agent in context, but the importance attached to this cluster was significantly lower than for those we have designated as critical agents in context. As we saw in Section 2.6, there is extensive evidence in the literature that investment banking activity influences analysts' outputs (for example, Newsome, 2005; Dugar and Nathan, 1995; Cliff, 2007; Lin and McNichols, 1998; Michealy and Womack, 1999). Typically, in these studies, the source of influence is concentrated around an investment banking transaction such as an equity raise, IPO or M&A mandate. These are not everyday events, hence the intensity and frequency of interactions with banking tend to be uneven. For instance, if there is an IPO mandate in a specific sector then there will be frequent communications between bankers and analysts. In these circumstances, analysts may feel that banking represents a significant part of their network with frequent intensive interactions. However, there would also be lengthy periods with little or no interaction. This variability and inconsistency may explain why the analyst participants did not elevate banking to the level of, say, external clients.

The relatively low importance attached to competitor analysts may also be surprising. For example, Rao et al, (2001), in their work on financial analyst initiations of coverage, saw analysts as imitators, mimicking the decisions of others. There was little evidence that competitor analysts were seen as influential agents in context, although their research is reviewed on occasion by some of the participants we interviewed:

"...maybe 4, 5 people I think are good in my sector, if they change something I'd read it. Other people I wouldn't even particularly care."

(Focus Group 1)

Industry experts and media were mentioned sporadically in the fieldwork but more in the sense of being useful resources rather than important agents in themselves.

Based on the fieldwork, both companies covered and external clients are significant agents in context. Their relevance to the analyst field is well established in the literature (see for

example, Brown et al, 2015). However, the internal sales force, representing an internal client, is rarely addressed in the literature. All three are explored further below.

5.4.2.1 Sales Force

Almost all brokers have an internal sales force whose role it is to sell the research product externally to investing clients. Concepts of time-space from structuration theory can help with understanding their importance. These agents occupy a space with very different characteristics of time-space when compared to, say, external clients. Firstly, the interactions will be much more frequent between the analyst and the sales force. Investing clients can choose to speak to, say, another bank's analyst, but the internal sales force has no such flexibility given they only have access to their 'house' research team for each sector. Furthermore, the proximity also means that, in a temporal sense, there is much more immediacy in these interactions with sales. On days when an analyst has published a significant report, their first interaction outside the research department will be with this cluster of agents in context. Such immediacy of interaction elevates their importance "...with your salespeople, because they are your first counterparts, you need to make sure that they understand where you're coming from" (Analyst 12).

Analysts also appreciate the critical sales role of disseminating research to as broad an audience as possible. Their work facilitates a dramatic upscale in publicity that analysts could benefit from:-

"you want your internal distribution to be on board. Then you can call ten clients until midday, but if there are 20 people who are distributing and they do the same, you can reach 200 people."

(Analyst 4)

The position, needs and modus of salespeople are different from external clients. They are, in the main, selling other people's (the analyst's) ideas, so the dynamic with research is very different in tone from when an analyst is discussing their product with an external client. Furthermore, for sales attention the analyst is competing with other analysts within the same broker, whereas with external clients, the analyst is competing with specialists from other firms. The result is that both the interactions with, and needs of, this cluster diverge from those of external clients. In broad terms, the generalist sales force will want a more straightforward message than the typically more specialist external client. Also, they will require convincing as to the quality and insight in the analysts' work given their task is to sell the product:

"As a salesperson it's difficult because you need to sell someone else's idea and this analyst could be either bad or good. So you need to really put yourself in a position that your analyst is the best in the world and you're going to sell it."

(Analyst 1)

The relationship between sales and research is often fraught given the nature of their respective roles. Whilst analysts produce the research, the sales force assesses its quality and uses this assessment to determine the amount of effort that will go into selling the product. The level of sales effort is a crucial factor in whether the analyst's product makes an impact on clients. This leads to intense interactions as salespeople question analysts on their work. Corporates covered by the analysts are well aware that these interrogations take place. For example, the morning meeting, after a set of results are released by a company, would be an opportunity for salespeople to engage with analysts. Here we see a corporate investor relations professional using his ability to help analysts to enhance his relationship with them:

"Knowing that at that time in the morning you're going to get grilled in a minute and you're going to have to shout out six things to guys who have the attention span for two, and then you might get some questions which will be very blunt and need quick answers, so it's making sure they (the analysts) have a dozen facts within 30 seconds that they can look through and run off to validate and run off to do a sales force announcement. It's part of that understanding that that's difficult."

(Corporate 5)

There are a number of important points embedded within this extract. Again, we see issues of time explicitly mentioned. The early morning period is a period of particular intensity for analysts (Groysberg and Healy, 2013), so much so that corporates are cognisant of the need to provide support. Secondly, the comment that salespeople have a limited attention span is an example of how they differ from the more detailed, specialist analyst cluster. The evidence also provides a sense of the competitive nature of events as analysts battle out for sales attention. Finally, the corporate is using this 'tension' to build deeper relationships with analysts. It is interactions such as these, in the provision of valuable support to analysts, that will build stocks of trust and power resources for companies to draw on in the future.

5.4.2.2 External clients

The next cluster of agents in context to be considered is external clients. Chapter 2 identified that analysts compete for investor attention (Baum et al, 2016) and that the central purpose of the analyst's position is to provide profitable advice to these investment clients (Kecske et al, 2017). The importance of the clients as a meaningful component of the analyst network was mentioned in every analyst interview, and indeed the pilot focus groups as well. Importantly, clients should not be perceived as a homogenous agent cluster. Rather, they represent a diverse group of institutions with variegated needs. Long only funds (longer term investment horizon and prohibited from shorting stocks) are very different from hedge funds (*tend* to have a shorter time horizon and generally can short stocks). Even within the same

broad type of client further diversity can also be found. The most important is the distinction between 'buy-side analysts', who undertake the detailed analytical work, and 'portfolio managers' who decide on the investment decisions of the fund in question. This presents challenges for the analyst:

“So if we really dissect it between an analyst and a portfolio manager, a portfolio manager, you know, doesn't care necessarily if you're overweight in one stock, over another, he wants to get that one idea out of that sector, versus an analyst who needs to have a view of every single stock in your coverage.”

(Focus Group 1)

The analyst is therefore expected to provide a simple, understandable idea to the sales force, including significant detail about every company for the buy-side analyst and, finally, money-making ideas for the portfolio manager who will almost certainly be a quasi-generalist. This is before considering the different investment philosophies of long-only and hedge funds. The ability to satisfy such disparate demands is key to an analyst's success.

5.4.2.3 Companies

The third and final critical agent in context is the companies covered by the analyst. There is an inherent conflict between analysts seeking to be independent in their research and companies being the source of vital information for such research (for example, see Francis and Philbrick, 1993; Levine, 2017). Indeed, Johansson (2007) viewed the relationships that analysts maintain with company personnel as a key source of their competitive advantage. This intense conflict is considered in some detail below in the discussion around 'relations' at Section 5.6. One often overlooked aspect of the relationship between analysts and the companies they cover is that corporates are prodigious consumers of research:

“...the company will definitely read it, especially if you change your recommendation. It would be very naïve and bad if they didn't because they might get a question about it, so they have a vested interest in not being caught short by not having read it.”

(Analyst 14)

An awareness of this undoubtedly leaves an impression on the analyst as they go about drafting their reports. The other aspects of the analyst-corporate relationship are addressed in the discussion on power at Section 5.6.1.

5.4.3 The fixed nature of the analyst field

Before moving on to position-practices and relationships, one characteristic relevant to the discussion that follows is the relatively stable nature of the agents in context occupying the

various slots across the network. As previously mentioned (see Section 1.2), analysts are, outside of a few exceptions, industry specialists. Therefore, the corresponding specialists at investing clients are 'matched up' with those working for companies in the sector. Fieldwork evidence suggested there is a low level of turnover and so relationships with key individuals need to be sustained over time:

"I, as a salesman, have 100 per cent choice as to who I communicate with and I know that if I don't get on with one guy, I'm giving it to my diverter colleague base to talk to this guy – they might get on with him. There'll be a fit somewhere within my team, whereas I have never envied analysts or specialist salespeople for the requisite to talk to all those people... With some, there'll just be a huge clash. Tough, really tough."

(Sales 6)

Even where there is movement, it would seem reasonable to assume that experienced analysts, who have invested time and energy to become industry experts, would often remain within the same sector. This *fixed* nature of the field increases the intensity of the dependencies that analysts feel. They cannot, within reason, choose to look elsewhere to cultivate relationships. They must deal with the cards they have been dealt, thus curtailing their agency. The relatively constant make up of the individual actors across the field implies that an analyst who fails to create functioning relationships with particular critical agents in context has potential long-term ramifications for their success. For example, analysts arguably need to consider longer time horizons when considering action. In general, knowing that many of the field participants could potentially play a long-term role in the analyst's career, increases the importance and intensity of their interactions. Additionally, the analyst will be aware that certain practices are more likely to result in sustaining and cultivating long-term relationships than others and so this will act as an effective restraint on the analyst's agency. We have already encountered evidence of professionals sustaining networks in Daff and Jack (2018) where accountants actively pursued enhanced relationships across their networks.

5.5 POSITION-PRACTICES WITHIN THE SELL-SIDE ANALYST FIELD

In his explanation of position-practices, Cohen (1989) made particular reference to gaining an understanding of critical obligations and prerogatives of social positions, a theme extended by Moore and McPhail (2016, p.1207):

"Positioning refers to the prerogatives and obligations of the position which are reconstituted by the agent in focus through praxis."

This focus on obligations and prerogatives provides a useful structure for the discussion of the analyst position. It extends the discussion beyond a reductive analysis of the role or job description. Giddens (1984) identified the danger in focusing on formal 'role' responsibilities

rather than the broader concept of position. He wanted to avoid an overly deterministic interpretation such that: “The script is written, the stage set, and actors do the best they can with the parts prepared for them” Giddens (1984, p.84). The discussion needs to go beyond preconceived notions of “things an analyst does” and focusing on the broader conceptualisations of prerogatives and obligations helps achieve this.

5.5.1 Prerogatives

5.5.1.1 Unique position

Our fieldwork evidence reflected the profoundly networked and social nature of the analyst position and the advantage this provides. Analysts occupy a space, embedded in the field of position-practices, bounded by *inter alia* corporates, investors, and salespeople. In the fieldwork evidence, analysts saw access to corporates, and the senior management within these companies covered by the analyst, as a significant privilege. It provides analysts with the information-based resources and capabilities needed to carry out their duties:

“What do you do for a living?” I would say, ‘I fly around the world, I meet a lot of pretty smart people and we bounce ideas off each other. Then I go and write about it and have quite a lot of support and the tools to be able to delve into that and understand it’, which is a pretty compelling job offer, really.”

(Analyst 7)

“I love going into the results meetings, meeting the CEOs of companies. You get exposure to really brilliant people, from quite early on as well. So, I’ve always enjoyed that, and getting into the nitty-gritty of how they think about things, how they make their decisions, what drives them, what motivates them.”

(Analyst 11)

One of the reasons clients use brokers is because of this ‘connected status’ where analysts become the “eyes and ears” of the client (Kellard et al, 2017). The agent in focus must draw on sophisticated structures of, in particular, legitimation and signification to avoid putting access at risk. For example, an analyst would know that publishing a highly critical research report on company management often results in restrictions on the access so revered by the sell-side. Such dynamics are crucial facets of the conditions of action facing the analyst and have structuring properties in that they help to pattern practices. We shall return to this theme as we progress through the chapter.

5.5.1.2 Freedom and flexibility (agency)

The other critical privilege emerging from the data is the level of freedom analysts perceive in how they go about their work, the freedom to shape it as they see fit:

"...why do I enjoy the role? I enjoy the role for a number of aspects. Number one, I get to own my own business to a large degree. I get to measure and critique my own business model on a daily basis. It's up to me how I run my own business. In a lot of ways there's an element of entrepreneurship around what we do."

(Analyst 6)

Furthermore, our evidence identified the analyst position as having higher degrees of freedom than other positions incumbents have held in the past:

"I think there's actually a lot more freedom in equity research and this role than in a normal corporate job. For one, you're working in a team that ranges from the size of two to six or seven, versus in a corporate job you are part of a much bigger department that ranges from fifteen to twenty people and by default you are more the driving force of your teams or your own destiny."

(Focus Group 2)

The issue is how far does such agency extend? Consistent with structuration theory, which rejects the idea of unfettered autonomy (Cohen, 1989), analysts face limits to their agency. These arise from the obligations that they feel and experience as flesh and blood agents and are considered below.

5.5.2 Obligations

5.5.2.1 Regulation

It became apparent from the early stages of data collection and analysis that analysts feel that regulation, and its implementation by compliance departments, has become an increasing burden and source of constraint. Such regulations appear to be characterised as an independent causal external structure, using Stones' (2005) terminology. The laws, issued by powerful regulatory bodies such as the FCA or the SEC, exhibit the autonomous characteristic which Stones (2005) saw as central to his conception of 'independent' external social pressures imposing constraint on agents. In the case of laws imposed by regulatory bodies, agents presumably feel obligated to comply. If the punishment for failing to abide by these regulations is a regulatory breach, there is no feasible option to 'do otherwise' if an agent is to fulfil the routine obligations of the position. Stones (2005, p.112) accepts this limitation of agency arguing that, "real people are less free to 'do otherwise' than abstract agents."

Chapter 2 described a number of regulations which were introduced over the last fifteen years, in particular, MiFID²⁶, which harmonised aspects of regulation relevant to investment services, and MAR²⁷, which emphasised investor protection and the integrity of markets (see Table A.1 in Appendix 2). These built on regulatory changes in the US such as Regulation Financial Disclosure, which explicitly prohibited companies from sharing material non-published information, and Sarbanes Oxley, which enshrined the separation of banking and research. The existence of these pieces of legislation is well known and a number have been the subject of research papers (see for example, Gintschel and Markov, 2004; Kadan et al, 2009; Wu et al, 2017; Barber et al, 2007). The perception of analysts, as observed in this fieldwork study, was that the rigour with which such legislation is being implemented, rather than the rules themselves, has resulted in significant changes in patterns of practice:

“Compliance-wise, there is much more restriction in place than there used to be. It’s interesting when you talk to compliance people now about what they say you can’t do, which is actually counter completely to what you were encouraged to do when I started.”

(Analyst 9)

This external structure produces a material change in analysts’ agency. It curtails the realistic prospect of being able to ‘do otherwise’ if that alternative course of action contravenes the relevant regulation or the interpretation of it within the employing organisation. There was evidence from some agents in context that the premise of the regulation is flawed:

“It feels like the regulators have decided that analysts are very powerful and that what they know is so important that anything they say will always move share prices and they’re always right, so what they say has to be simultaneously distributed to everybody. Now, that is clearly absolute rubbish because analysts do not know everything and they do not move share prices, but because that’s how it’s set up.”

(Client 3)

To illustrate the realities of the challenges facing analysts, it is worth considering the rules around simultaneous distribution. This regulation requires analysts not to communicate opinions, for example a stock recommendation, until such views have been published. On the face of it, such protection for investors, to avoid giving certain clients an unfair advantage, appears a cogent restriction. However, as part of their position, analysts converse with many clients on a daily basis and interactions continue even as analysts contemplate and work on changes to their published opinion. In the midst of this ongoing communication significant discipline is required to avoid straying into an unpublished opinion. Arguably it is an unrealistic

²⁶ Markets in Financial Instruments Directive

²⁷ Markets Abuse Regulation

expectation. One solution is for the analyst to avoid any discussions outside the research department until a report is published. In a world of breaking news, such a strategy, as this quote makes clear, results in less interesting research:

“...the analysts are now forced to share information to all their clients at the same time. It’s getting more and more difficult to give a tailored service to suit the client, based on news flow or company results or the market day. It’s making the research product more and more commoditised.”

(Sales 2)

Another challenge arising from this regulation is how to cope with ‘out of date’ views in the intervening period before publishing refreshed research. Given the wide variety of diverse tasks analysts undertake as part of their practices, including corporate field trips, international client marketing or investor education, it might be many weeks or longer before an up to date research report can be published. During this period analysts need to remain committed to the (potentially) out of date research:

“The thing that I feel has changed on the sell-side is definitely the thought about simultaneous distribution and it being difficult to say something that isn’t in line with your published view. I get the point of not saying something that’s not in line with your published view, but the fact is, if things have changed then your published view is wrong.”

(Analyst 3)

To illustrate the extent of constraint, consider the extract below regarding the busy early morning period. In this particular situation, the analyst is faced with UK companies, reporting their results at 07.00 am, ahead of the market opening at 08.00 am:

“... often you have information at 07.10 am and you have company results and you’ve spoken to the IR and you’ve clarified something and you feel you’re in a position where you know as much as you can know, but actually you can’t speak to anybody because you have to type it up into a note, which might take you 20 minutes and then it has to go through the legal process, which will take another 20 minutes. Suddenly, it’s 08.00 am and you haven’t been able to speak to anybody.”

(Analyst 11)

Analysts occupy a privileged position, and so to protect this, they will take steps to avoid falling foul of regulations. Given the extent of freedom and entrepreneurship historically enjoyed by analysts, it would not be surprising if the increasingly challenging compliance environment caused anxiety and diminished ontological security. It can challenge the very essence of the position they hold:

“Given the compliance environment we’re in, it’s very difficult for a sell-sider to have an opinion.”

Consideration of ontological security, confidence and anxiety require the researcher to examine the internal structures of agents and, so are considered part of the structuration analysis in Chapter 7.

5.5.2.2 Independence

The second critical area of obligation is the need for independence. Unlike regulation on matters such as the simultaneous distribution of research, independence remains much more ethereal and abstract. Independence is expected by agents in context, and it is part of the core appeal of analysts' work:

"...if you're a fund manager looking at 30 companies in your portfolio, having somebody who really knows that company and who you can trust because they are independent."

(Corporate Interview 5)

Demand for analyst services is predicated, to some degree at least, on their perceived independence. In their position-practices field independence is a condition of action. However, independence is not binary; it is not activated by the flick of a switch. It is embedded in the internal structures of agents, in their habitus and conjuncturally-specific stocks of knowledge. This study provides evidence that analysts have complicated feelings on the matter:

"I think I'd say you are 90 per cent independent in this current role. If I feel that I'm not independent, I don't write or speak about it. I wouldn't do something just because somebody forced me to do so."

(Analyst 12)

The abstraction of independence, when combined with its practical importance, presents problems for analysts. Firstly, can analysts ever have the security of knowing they are independent? For example, one agent's view of independence may not be consistent with another agent's opinion. It is likely that the internal structures of the agent, including their *habitus*, would be implicated in decisions about what amounts to independence in a specific scenario. The analyst also has to contend with the inherent conflict at the centre of his position, a point captured by this view from a client:

"They actually are not independent, ultimately, because they want the companies to like them. We don't really care."

(Client 2)

Analysts want to maintain positive relationships with other agent clusters in the field as those relationships will often confer information resources. The analyst is therefore left to steer an acceptable path through the position-practices network which balances the demand to be independent and the need to maintain functional relationships.

5.5.2.3 Process

Process assembles the various duties which form the day-to-day 'process-orientated' obligations of the position. Evidence has been collated regarding these obligations under three broad groups; calculative procedures, industry expertise and client servicing.

Calculative techniques represent the analytical work itself. There is a clear connection here to the 'black-box' of analyst processing activities (see Bradshaw, 2009) mentioned in Chapter 2 (Section 2.4). Our fieldwork evidence points to well-established practices such as modelling, forecasting and valuation as the most significant aspects. Analysts must master a range of calculative routines, typically in the early years of the job. Many of these analytical activities must be undertaken on a periodic basis and can themselves become a restraint on their freedom:

"There are some basic requirements. A company is going to report two or four times a year and you need to be aware of those results. I guess to a degree it's up to you. Do you do a really in-depth report of those results? Do you do a quick one-line response? Do you not put anything out? There is some flexibility, but you're so tied down to those reporting periods."

(Analyst 11).

The data revealed no clear consensus about the *most essential* technical role played by an analyst. Two of their most prominent activities are determining the target price (essentially a valuation exercise) and separately assessing the attractiveness of the stock as an investment (i.e. designating a rating on the stock). A diversity of opinion is evident in the empirics in Table 5.1. One observation is that earnings forecasting was rarely mentioned as a critical component of itself. It often appeared to be subsumed into themes around 'keeping on top of the numbers'. Given the significant focus on forecasting in the literature this evidence indicates that forecasting is very much subservient to stock ratings and other activities.

TABLE 5.1. EVIDENCE OF CALCULATIVE ROUTINE OBLIGATIONS

Feature of the role	Illustrative quotes
Stock ratings	<p>“So I build earnings models and I run valuations and I decide whether or not something is fairly priced or under or overvalued, but the reality of it is that the people that I speak to are professional investors and what they want is my opinion.” Analyst 7</p> <p>“To me, my price target matters less because there is so much volatility and there’s so many unknowns, to me the recommendation is arguably the most important thing because to me, if I buy a stock or I sell a stock, that’s what my analysis comes down to, I won’t write a piece of research just to write it as a research paper to say some generic stuff. The reason I do the research is to decide whether I should buy the stock or I should sell the stock – that’s it.” Focus group 1</p> <p>“The ultimate function is advising clients on, you know, what they need to buy or sell within a specific sector or universe of stocks.” Analyst 2</p>
Valuation	<p>“I think my price targets are more important, I think obviously when things are moving around all over the place, ratings are relative, yeah, you slap a badge on it when you write that piece of research, I feel like the price targets you stand by more.” Focus group 1</p>

Consistent with the literature (see for example, Brown et al, 2015 and Table 2.1) the findings of this research suggests that industry expertise is a core aspect of the value an analyst can add. At the heart of this is the structural difference between the buy-side and the sell-side. Analysts cover far fewer stocks and are therefore relatively specialised in comparison to their buy-side peers. The disparity between these two positions affords the analyst significant opportunity to add value as the buy-side analyst simply cannot specialise to the same extent as the analyst (see the quote by Analyst 7 in Table 5.2). Inherent in the expert role and related specialisation is the expectation that analysts will filter information and draw clients’ attention to salient matters. As can be seen from the empirics in Table 5.2, even straightforward information about share price movements can have value. However, at the same time, the ability to add value *merely* by filtering information has become more challenging due to both the volume of data and because of rapid access by many more market participants. This dramatically increases the competitive intensity analysts face to be the first with data.

TABLE 5.2. EVIDENCE OF INDUSTRY EXPERTISE ROLE

Feature of the role	Illustrative quotes
Buy-side vs sell-side	“..the reason we’re called analysts is because we’re selling information to buy-side clients, who are buying it. Generally, it is the buy-side analysts look at a much broader space than we do, we are a lot more specialised, we’re looking at, let’s say a dozen stocks each give or take, that means we’re specialists on each and every one of those topics.” Analyst 7
Adding value through data	“One must be that the share price has moved. I know that’s obvious. Let’s say our universe is just the Stock 600 – which it’s not, it’s bigger than that. We have a policy not to invest in a couple of sectors, so let’s say that’s the Stocks 500 for us. There are three analysts – if we were looking at generalist analysts, that’s 150 stocks each – it’s a bit more than that, but approximately. I cannot be on top of share price moves of 150 stocks all the time. At the very least, one of the benefits of having analysts out there is that they’re looking at their ten stocks, one of them’s gone down by 20 per cent, they can write a buy note. It flags up to me that the shares have gone down by 20 per cent. That in itself is a useful function.” Client 3
Information ubiquity	“I think the speed that information actually travels nowadays is a key constraint versus five or ten years ago when the Internet wasn’t as popular. Nowadays if you’ve got one data being published on one website, in one minute or even less everyone has information. So in the past you tended to have a bit of time-lag in between and hence, as analysts, you tended to feel you were in possession of something more valuable. Now it’s less so”. Focus group 2
Information scarcity	Another big part of it is data-wise, because again changing world companies are providing less and less data, so there are fewer ways to see things that are going on and understand what they’re not telling you. The less you get, the more difficult it is to do that. Analyst 9

Unsurprisingly, client communication and servicing were recognised by participants as significant duties, and a sample of relevant empirics is shown in Table 5.3. As discussed, this ideally needs to reflect both internal and external clients and, although their needs overlap, significant differences remain. This fragmentation continues with the divergence between long-only and hedge fund clients, leaving the analyst a formidable navigational challenge. Analysts define their success by client rankings, and so the ability to manage diverse, multiple and often conflicting demands is fundamental. Analysts are well aware that maintaining momentum in client reviews, which typically take place every six months, is a significant challenge.

TABLE 5.3. EVIDENCE OF THE CLIENT SERVICING ROLE

Feature of the role	Illustrative quotes
Client diversity	“I’ve been sitting in on meetings where the discussion has been a hedge fund who has a list of fifteen questions that he’s throwing at you and he’s clearly asked ten other people a similar list of questions and wants answers very specifically and it’s quite event-driven; these are near-term things that are happening that they want some understanding about. You might go to a long-only client who is interested in creating a long-term view and is probably more interested in discussing a bit of work that you’ve done and the rationale, the longer term thinking of it. Sales and trading would probably be more short-term, perhaps looking to respond to news flow more so than discuss your work.” Focus group 1
Measure of success	“I define success as recognition by external clients. So that is validation of work done and validation of the strength of using opinions and the views of external clients. That to me is what defines success. Rankings, in other words.” Analyst 2
Adding value to clients	I think the most significant challenge is a perception – right or wrong, and a lot of that is driven by the analysts themselves – that they’re not adding value. If there’s a perception that you’re not adding value then the challenge is almost insurmountable because clients don’t want to speak to you, corporates don’t want to speak to you and internally you don’t want to be spoken to. The business model unravels quite quickly. I think the challenge is really staying relevant when everywhere around you is wanting a reason to make you irrelevant, quite frankly. Analyst 6

In bringing this discussion of practices to a close, it is worth recalling that Giddens (1984) saw structures as being both the medium and the outcome of human action. Cohen (1989) suggested the logical extension of this implies structures have both a constraining and an enabling quality. In interpreting the obligations and prerogatives experienced by analysts, these characteristics of enablement and restraint can be identified. For instance, enablement is manifest in the informational resources available to the sell-side which allow them to perform. The constraint is the social pressure on analysts to maintain functional relations with the agent clusters that provide this very information. Explicit regulation and expectations of independence also have these dual enabling and constraining features. For illustration, when challenged on a piece of research, analysts can refer to the need for independence and regulatory conformity as justifications for particular positions they have adopted. These obligations constrain them, but they may also aid them in justifying decisions.

5.6 POSITION-PRACTICE RELATIONS – DEPENDENCIES AND POWER

The focus of this section has primarily been on the positioning of clusters of agents in the analyst field, and their practices, captured by an analysis of critical obligations and

prerogatives. Analysis of relationships and dependencies is now discussed, including the natural lead in to the consideration of power:

“Power relations are always embedded within these fields of position-practices with actors involved in a whole series of projects, each involving their own relevant sets of position-practice relationships.”

(Stones, 2009, p.96)

Stones (2015) suggests that issues of power and interdependency are almost always central to contextual analysis and indeed Giddens also highlighted dependencies in his conception of power for structuration theory:

“Power...presumes regularised relations of autonomy and dependence between actors or collectivities in contexts of social interaction.”

(Giddens,1984, p.16)

What role does power play in the context of the application of strong structuration theory? Firstly, power can be exercised in various forms, including legitimate authority in a consensual form, manipulation, persuasion and influence as well as coercive authority (Stones, 2009, p.96). Luke’s (2005) conception of the three faces of power provides a useful framework for understanding its nature. The first face of power is the ability of one agent to control decision making in a specific situation (Dahl, 1957) and is the most explicit form of power. The second face extended power to the ability to influence or control matters that might appear on the agenda (Bacharach and Baratz, 1962). For example, if issues can be kept off the agenda then this is a form of control as no decisions will be made relating to these matters. The third ‘radical’ face is where power is used to shape the perceived real interests of those being dominated. These concepts can be used to understand the nature of power in, for example, the analyst-corporate relationship which is considered further in Section 5.6.1 below.

In the particular situation of analysts, formal power enshrined in hierarchical structures is of less relevance. Analysts enjoy freedom within their employing organisations, albeit with more regulatory interference. The most interesting power relationships lie outside of analysts’ employing institutions and in the field itself.

5.6.1 Company-analyst relations

Fieldwork evidence suggests that the most significant power relations are at the intersection between analysts and the companies they cover. Analysts’ independence from these corporates is a cornerstone of the trust and reliance placed on their work. The ‘information privilege’ that the sell-side derive from corporates, in turn, creates a dependency on them.

Fogarty and Rogers (2005) have already provided evidence through an institutional theory lens that analysts exhibit a pro-management tendency to maintain functioning relationships. Such interdependencies provide corporates with power resources. This power is evident and sustained in the routine and regular actions and interactions between companies and analysts. Field study evidence showed that, in these interactions, corporates explicitly sought to use structures of power to influence the work of the analyst. In fact, in this extract it is presented as a *need* to influence:

“So of course you want to control the narrative. You’ve got to be on the front foot with that, because if somebody gets there first, it takes on its own life. So that’s why the dialogue with analysts and the buy-side guys are so important, because that’s where the external narrative starts. You need to influence that quite early.”

(Corporate 2)

This situation resonates with Lukes’ (2005) work on radical power already referred to in Section 5.6 above. If companies seek to control the narrative, then this form of influencing appears consistent with the second face of power in the form of ‘agenda-control’. Corporates want to keep certain issues on the agenda and others off it, based on their desired narrative. What is the motivation behind this eagerness to influence? Evidence suggests it ranges from simply wanting to ensure factual accuracy of analysts’ reports, trying to prevent misinformed analysts publishing and creating noise and wanting to direct the sell-side to where the company wants:

“I definitely influence. Definitely. If they’re doing a decent piece of work they’ll come and see you first. They’ll say, ‘I want to write a note. Can I see you for an hour?’ ...I’ll work through questions. That has to have an influence. I suppose I will try to put the best side to our investment case or our story.”

(Corporate 3)

“It’s not to hammer that guy to the ground and prove him wrong; it’s having a member of your team coach him and get him to think differently.”

(Corporate 5)

While fact-checking or debating issues might be seen to be a relatively benign use of power resources, these practices move towards the second face, of power. Other agents in context both observe and experience this exercise of power:

“It’s the exerting control, the divide and conquer. It’s not all companies but there is enough of a segment of the corporate world that is quite deliberate in trying to ‘manage’ views and reactions and get their message across forcefully. That applies equally on the buy-side.”

(Client 4)

Corporates exercise structures of sanction and reward to influence analysts. There are various forms of penalty that companies can impose. Here the analyst is having his query pushed down the rota on the periodic results conference call:

“If someone has written something that is wrong and I’m feeling particularly vindictive when it comes to the year end, I don’t take their question until last, and when it comes I’ll guess what it’s going to be about. I haven’t done it, but it’s in my gift to really humiliate them in front of their peers.”

(Corporate 3)

Relegating the analyst’s question to the end of the call and mocking them in front of their peers may not have a significant impact on the individual’s career progress and success. However, there is evidence that companies can and do react in more aggressive ways including limiting the analyst’s ability to get access to information, cutting them out of corporate access road shows or trying to ensure the analyst thinks very carefully about having a similar, typically negative, opinion in the future:

“I had an incident; the company was going to come to a conference, we’d arranged for investors to come and see them and it was all teed up. We changed recommendation for a good reason just before that and they pulled from the conference overnight. I guess part of their job is to make you feel uncomfortable.”

(Analyst 9)

“Let’s face it; we all know stories where analysts have written something which has not gone down well with a company and said company has changed its brokers as a result. That must have an impact.”

(Corporate 1)

So how do analysts navigate this challenge? In the ontology of strong structuration theory, resistance is assessed based on three factors; the ability to resist whilst still meeting commitments, the knowledge of alternative courses of action and the critical distance to facilitate strategic decision making on the part of the agent (Stones, 2005). In this case, if the agent was contemplating a negative rating, then they are likely to meet these conditions for resistance as they have the ability to issue such a rating, it is a real alternative and is sufficiently non-routine that they would have the requisite distance to think through the options.

In addition, like any agent, analysts need to be sensitive to the fact that the outcomes of their strategic conduct are highly contingent on how others react (Coad & Glyptis, 2014). An analyst, when considering active agency, will think about the likely reaction from companies, other analysts and internal and external clients. Structuration theory, through the concept of the dialectic of control, tells us that even the most subordinated agents have residual power.

Therefore, despite the fact that, based on the preceding discussion, analysts might appear highly subordinated in their interactions with companies they are, in fact, far from powerless.

Integral to coping with these challenges is the capability analysts exhibit to foresee the future position-taking of other agents in context when making their own decisions. Most analysts are well aware that they must exercise caution in the way they express negative views about a company. As Analyst 6 mentioned:

"...when you start taking aim at specific vulnerabilities that you know exist, for example this guy was incompetent, then you're setting yourself up for a very negative reaction'.

(Analyst 6)

A good example of this is a meaningful and sensitive decision whereby an analyst is deliberating whether to downgrade a stock to a negative (i.e. sell or underweight) rating. The analyst will anticipate the likely response to a negative rating, including the future state of the agents in context, and draw on their internal structures to decide on the most effective path to take. One practice that has evolved from this situation is for the analyst to avoid the downgrade to sell altogether and instead to use a hold recommendation to convey a negative message. In such a situation a corporate is arguably less likely to react very negatively when compared to an outright sell rating. Another practice used by analysts is to go ahead with the negative rating but to use a carefully crafted narrative around the rationale which does not reflect negatively on the company or its management. Such practices diminish the sensitivity around the rating decision:

"I've had a sell and it was from Analyst X, who is the top and it's simply because he said, 'I can't see any more growth in the share price'. He put the note out first and then he rang me and said, 'I'm sorry I've got you on a sell. I need you to understand that it's not you, but I can't see the share price going up any more'. That was very cordial, which I found to be an interesting way of behaving. I said, 'Okay, that's fine'. That's what he wrote in his note; 'This is a great company but I don't see more growth in the share price'."

(Corporate 3)

This could be termed "impression management" on the part of the analyst (Abhayawansa and Guthrie, 2012). In their study, Abhayawansa and Guthrie found that analysts use intellectual capital information in reports to "*subdue the pessimism associated with unfavourable recommendations*" (2012, p. 410). There is little doubt that power, influence and interdependence are not equally distributed across the network. However, analysts are not recreants. They have forms of resistance that they can bring to bear in the dialectic of control. More experienced analysts, with strong franchises, can draw on substantial structures of

legitimation after many years of learning to position themselves in their interactions with companies. A comment from a very experienced analyst is a good example:

ANALYST: *I've been threatened with being sued. I've had companies phoning up the chairman of my biggest banks. Yes, I've come across absolutely everything.*

RESEARCHER: *How does that affect you, if at all?*

ANALYST: *I get absolutely confident that I've made the right call.*

(Analyst 10)

The analyst's position confers certain power resources given that, for example, a stock rating is often seen as an opinion on the company management itself. Companies will, therefore, be aware that maintaining good relations with analysts can be beneficial. For example, when launching a new strategic initiative, a supportive, or on the other hand highly critical, research report may have a significant impact on how the market reacts to the plans. The challenge for the analyst is to learn how to draw efficiently on internal structures of legitimation, signification and power to ensure a balance between maintaining acceptable relations with a company, whilst not sacrificing their independence. The work of Imam and Spence (2016) has clear resonance with analysts attempting to maintain these relationships, and therefore sustaining their social capital and informational privileges.

5.6.2 Client-analyst relations

For both internal and external clients, power relations are interwoven with interdependency.

5.6.3 Internal clients

The sales-analyst relationship has a unique different form. The benefit for the analyst of sales support, as we saw earlier, is the fact that the sales force can broaden the distribution of the research product. This increases the potential for greater impact and reward for the analyst's efforts. For the sales force, backing successful stock calls enhances their reputation and the opposite is also true. Unlike in other types of businesses, 'research sales' is under no obligation to sell every piece of research. They tend to be discerning and discriminatory to protect their reputation. A sales force will routinely exercise their power by sanctioning the analyst who is not producing what they deem to be high quality research. The sanction, in this case, could range from an explicit critique of the analyst's research to withdrawing their support to sell it. The time-space proximity of this cluster further intensifies the nature of the relationship and the pressure on the analyst. Therefore, an analyst will make significant efforts to appeal to this agent in context by crafting messages that are more appealing to a generalist, more straightforward to communicate and with clear and unequivocal conclusions.

In a similar fashion to the discussion above, regarding analysts and corporates, analysts are not powerless in this situation. At an elemental level power comes from the fact that all sales functions need some product (research) to sell. There is a limit to how discerning a salesperson can be given the nature of the role. Analysts working in large complex sectors, for example, pharmaceuticals or insurance, carry significant power given the challenges involved in a salesperson choosing to ignore their work whilst at the same time trying to service clients effectively.

5.6.4 External clients

External clients are the primary revenue stream for the equity divisions of investment banks and independent brokers (Groysberg and Healy, 2013). In part, because linking sell-side activity explicitly to revenue streams is fraught with difficulty in all but the smallest entities, a practice has developed whereby clients provide feedback on analyst services. As addressed in Chapter 2, this feedback or 'broker review' provides rankings of analysts and can be in a high-profile external survey form (such as the annual Institutional Investor poll) or in the form of direct private communications between the client and the analyst's employer. Such client rankings represent interpretive schemes. They help parties to the relationship, investors, analysts and companies, to make some sense of the relationship between the analyst and the client in question and the quality of the analysts' work and status of their franchise. There is significant power manifest in these interpretive devices, especially given the fieldwork evidence from this study which suggests analysts put great store on the results:

"Obviously, as with most jobs, rewarding, remuneration and promotion are important. I think more important in this role for me – and certainly when you get to a certain point – is recognition from clients and the relationship with clients and the fact that you are one of the first people they want to speak to and that you are viewed as one of the go-to analysts on that particular stock or that particular space in the market."

(Analyst 8)

The weight put on these broker rankings can cause significant anxiety for analysts especially given the very public nature of the information. There is no equivalent assessment of clients by analysts, and so this creates an explicit dependency and power imbalance. This is exacerbated by the relatively fixed nature of the client group with which analysts have to contend. Despite this fiercely competitive environment, the dialectic of control means we know analysts will not be without some power. Analysts have significant informational advantages over buy-side analysts as they are much more specialised in their work meaning external clients need quality sell-side research. However, for all but the top analysts in any sector, this does not redress this power imbalance. The impact of these interpretive schemes on analysts' internal structures and agency is considered further under agent's conduct analysis in Chapter 6.

5.7 TRUST

Coad and Glyptis (2014) proposed that trust should be of central concern when undertaking structuration studies. They included it as an integral part of their position-practices framework, albeit with a specific reference to accounting and control research. We would argue that trust is also of fundamental concern throughout the analyst field as evidenced by our fieldwork data:

"It's all built on personal relationships, so I guess trust is a very important factor. It feels like the whole industry is based on trust in that sense, so it's important, yes."

(Sales 2)

Giddens (1990, p.33) argues that trust is related to absence in time and space. Analysts occupy a position where, at least day to day, activities are undertaken largely without the active presence of management or supervisors. Given the freedom experienced by analysts in how they shape their work, they operate in such high trust positions. Giddens (1990) defined trust around the idea of reliance on other actors or systems in the presence of uncertainty. The reference to uncertainty is essential as, without some element of risk, there is no requirement or need for trust. Giddens (1990) disaggregated trust into two forms. One form was referred to as 'personal trust' in regard to reliance placed on people through social interaction. The other form of trust was 'system trust' and was defined as a belief and reliance in a system. For instance, the broker ranking or voting system used to assess analysts requires system trust for it to function effectively. Undoubtedly there is also some level of system-based trust in the functioning and rationality of equity markets. Without such trust, it would be hard to justify the calculative routines and related analytical work of analysts and the demand for these services by clients. Concerns or anxieties regarding system trust did not feature prominently in the fieldwork data. On the other hand, one did not have to look far to observe references to personal trust in various forms across the field.

The complicated relationship between the analyst and the covered company has elements of trust embedded within it, and the emphasis in the data was on this relationship. The evidence confirmed that elements of trust in these relationships extend in both directions. The most straightforward place to begin is the reliance that analysts place on the information flow from companies:

"I'm writing a note at the moment. The company has told me exactly what their findings are of a certain internal review. I think that was interesting, that looks great. I think they probably trusted me in telling me that. Then it's about actually saying, 'Okay, let's go and test that result'."

(Analyst 10)

This example shows the two-way flow. The analyst is trusted by the company with the results of an internal review and appreciates the access. However, rather than blindly accepting the results, the analyst then undertakes some further investigation to confirm what the company has told them.

Key individuals within companies, such as senior investor relations professionals, are aware of how important it is to be trusted by analysts to provide accurate information, in this case on breaking news:

"...for instance, it's about 7 am when we put our press release out on results or a big news item, the analyst sees it and rings in. It's making sure they've got trust that I'm giving them the information that I think will be important for them to go out on the speaker."

(Corporate 5)

Where an analyst does rely on management, and this turns out to be misplaced, there is evidence the company is penalised rather more than the analyst:

"So I think more the onus is on them to be reliable than rather us being punished for...for trusting a management who is supposed to be insiders, know what's going on in their company to a much grander detail than we do."

(Pilot focus group)

Trust was also prevalent when analysts and salespeople spoke about their relationship. Earlier in the chapter, the nature of the relationship with salespeople was discussed, along with a separate analysis of power relations. It would appear that the trust dimension to this relationship appeared when participants were referring to feedback, and it was felt on both sides as critical. From a salesperson's perspective, the agent is well aware that the nature of trust analysts give to the salesperson feeds directly into how they react to sales feedback:

"They really appreciated a salesman who was interested in selling their product and penetrating it. It's a horrible thing called teamwork. Trust is really important. Having constructive criticism on a product is, I think, completely essential and is severely lacking wherever I have been."

(Sales 6)

"Trust helps on so many levels. Trust helps as human beings; I feel comfortable, they feel comfortable. Trust helps with the fact that when I am being relentless with my questions or feedback, it's coming from a good place; it's used as an asset, rather than anything else."

(Sales 3)

Trust is integral to the practices of analysts. Analysts are continuously calibrating the reliance that they should place on their relationships with key agents in context in the position-practices network. The sanctions for repeated misplaced trust, where, for example, a company continues to disappoint on its earnings, may be severe for the analyst's career. To be effective, the analyst needs to exercise care in deciding on the extent of reliance. Two matters arise from this discussion. Firstly, the memory traces existing from occasions when an analyst has misplaced trust will be part of their internal structures and implicated in their future actions. Secondly, continuously calibrating and recalibrating trust, with the risk of error, will cause anxiety as analysts seek the anchor of ontological security. Both of these matters will be considered further as the structuration analysis is completed in Chapter 7.

5.8 CONCLUSION

The premise of this chapter is that analysts are embedded in a field of position-practice relations, and that this is implicated in their practices. Employing the position-practice relations model helps sensitise the researcher to in-depth description and explanation regarding the critical agents in context, positional attributes of analysts and matters of power and trust. It has facilitated a structured yet adaptable approach to the research.

Notable themes arose under each of these elements of the framework. The positioning analysis identified a critical cluster, the internal sales force, which has received little if any attention in the literature. The time-space proximity and unique needs and power resources of this cluster help facilitate understanding as to why analysts attach importance to their frequent interactions with sales.

In the practices section, the focus was firmly on the significant obligations and prerogatives of the analyst position. The focus on obligations revealed the impact that recent regulatory developments have had on analyst practices. The conditions for action have been changed significantly. Analysts accept their responsibility to remain independent, and keenly feel this obligation, but recognise that, as flesh and blood agents, achieving an absolute sense of objectivity is unrealistic. Privilege is focused on access to companies and overall freedom. The juxtaposition of regulatory constraint and powerful agency, alongside access to companies and maintaining objectivity illustrate the delicate balancing act that analysts must maintain. The relative stability across the field increases the intensity of this balancing act. Analysts cannot afford to have significant dysfunctional relations in their industry field.

The scrutiny of power relationships has exposed the corporate-analyst nexus as key. Companies openly attempt to influence analysts, frequently exercising their political and economic power to achieve their objectives. The imposition of sanction was also

commonplace based on fieldwork evidence. The analyst response, theoretically informed by the dialectic of control, demonstrates the power resources that they possess. The buffeting, negotiation and trading between these two clusters is likely to explain much of the practices observed in the field element of this research. The evidence suggests analysts use their highly-attuned capabilities and their knowledge of existing practices to avoid potentially debilitating reactions from corporates. The power vested in external clients is derived predominantly from the broker vote mechanism. This voting procedure should be thought of as an interpretive scheme allowing various clusters to make sense of the work of individual analysts. The public nature of some of these votes, and the weight analysts put thereon to measure their success, makes them meaningful in any interpretation of analyst practices.

In the final section on trust, personal reliance and leaps of faith are omnipresent in the field. Trust between analysts and corporates exists in both directions. Analysts assess the reliance they can place on information flows from company officials and, in turn, corporate managers attempt to be seen as trustworthy for their analyst coverage group. There was evidence of sanction for misplacing trust. The constant recalibration of 'whom to trust?' and, moreover, on 'what to trust them?' would appear to be further contextual matters to integrate into any analysis of analyst agency.

The particular conjuncture in this study is the analyst stock recommendation decision. The specificities of this decision become increasingly critical as the analysis moves from the external environment to structures within the agent in focus. Chapter 6 addresses this analysis through the bracket of agent's conduct analysis. This entails an examination of the internal structures of agents in the field and investigating how such structures interact with the external conditions for action following on from this chapter. To complete the structuration process, and the quadripartite model from strong structuration theory, active agency and outcomes must then be integrated into the analysis in the final discussion in Chapter 7.

CHAPTER 6.
FINDINGS II:
AGENT'S CONDUCT ANALYSIS

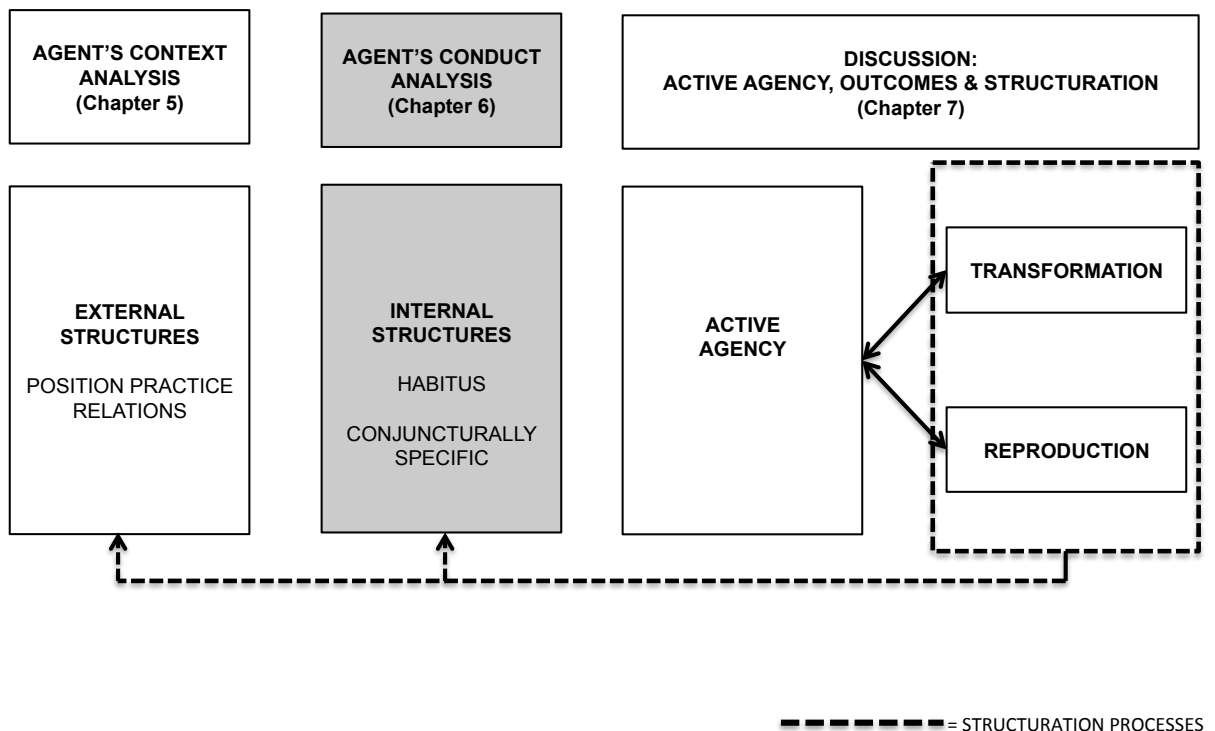
6.1 INTRODUCTION

“Well, it’s kind of a grieving process. Initially it’s denial - so you’ve said sell and it’s going up; ‘Oh, it’s now an even better sell than it was two weeks ago, so I feel even more conviction because now it’s got even more downside’. Then it’s ‘Oh no’, maybe I’ve made a mistake!”

(Analyst 3)

Chapter 5 addressed the methodological bracketing of agent’s context and agent’s conduct analysis required by the ontology of strong structuration theory. Having addressed the contextual terrain in detail, turning inwards, to the internal structures of the agent in focus, is required to complete the bracketing process. There are significant links evident between the analysis undertaken in Chapter 5, under agent’s context analysis, and the analysis in this chapter. Agents experience external structures and position-practice relations through their internal structures. This is an example of the interconnection between the elements of the quadripartite model, which illustrates its interweaving nature, itself consistent with the cyclicity of the structuration process. This chapter expands further on what is meant by agent’s conduct analysis before presenting empirical evidence on the two forms of internal structures. The quadripartite analysis is completed in Chapter 7 as illustrated in Figure 6.1 below.

FIGURE 6.1. QUADRIPARTITE MODEL OF STRUCTURATION



6.2 AGENT'S CONDUCT ANALYSIS

As has already been explained, agent's conduct analysis pivots the research lens inwards to the internal structures of the agent in focus. It entails consideration of "her reflexive monitoring, her ordering of concerns into a hierarchy, her motives, her desires and the way she carries out the work of action and interaction in an unfolding sequence" (Stones, 2005, p.122). Although Stones recommended bracketing as a methodological tool to aid focus, it is not possible to strip out completely the contextual realities of the field in any discussions of internal structures. In a similar way to agent's internal structures playing a role in agent's context analysis, the field inevitably enters into the fore as an analysis of conduct is undertaken.

An essential element of the ontology of strong structuration theory is the analytical distinction between the two forms of internal structures; the general-dispositional and the conjuncturally-specific.

6.2.1 General-dispositional

The general-dispositional has its origins in the habitus²⁸ of Bourdieu. He described it as a "predisposition, tendency, propensity or inclination" (Bourdieu, 1977, p.214). Agents acquire habitus through human experience. Agents may be born with greater or lesser potential but "we are not born with a habitus" (Calhoun, 2011, p.308). The concept of habitus was Bourdieu's reaction to the enduring social question of the primacy of structures or agency (Calhoun, 2011). Stones (2005, p.88) provided a comprehensive list of what the general-dispositional would encompass:

"Generalised worldviews and cultural schemas, classifications, typifications of things, people and networks, principles of action, typified recipes of action, deep binary frameworks of signification, associative chains and connotations of discourse, habits of speech and gesture, and methodologies for adapting this generalised knowledge to a range of particular locations in time and space."

Employing habitus as a separate and distinct element of the quadripartite structure ensures the researcher avoids overemphasising the particular context in considering the conduct of agents. It plays the role of a powerful heuristic (Maton, 2012) embodying a deep respect for the hermeneutic nature of the human agents in empirical studies.

²⁸ Stones (2005) admitted the terms can be used interchangeably. However, by referring to the *general-dispositional*, it allowed him to distinguish these forms of internal structure from the conjuncturally-specific.

There are three aspects of habitus that are worthy of mention before turning to the empirical findings of this study. Firstly, although habitus arises from life experiences and personal histories, and so is durable, it is not fixed. We would, however, expect it to change at a much slower rate than other aspects of internal structures such as those related to specific tasks or circumstances. Secondly, a significant aspect of habitus is its unconscious application. Stones (2005, p.88) suggested that, for the most part, habitus should be considered in a “taken for granted and unnoticed state”. Importantly, Stones (2005) explicitly identified that this smooth *doxa* can be disturbed such that we become “conscious of that which previously was pre-reflective” (Stones, 2005, p.88). Such consciousness might occur where there is a mismatch between, say, an individual’s habitus and their particular situation. Lastly, habitus has an important role in linking various aspects of strong structuration theory. Bourdieu put the linkage character of habitus deftly as the “dialectic of the internalisation of the externality and the externalisation of internalisation” (Bourdieu, 1977, p.72).

6.2.2 Conjuncturally-specific

The general dispositions of agents, as the term would imply, are transposable by nature across various contexts. The focus here turns to the more specific terrain which requires particular knowledge to address, “this building, this lecture theatre, this city, these organisational routines and these particular people” (Stones, 2005, p.90). In this study, the specific conjuncture at hand is the analyst’s stock rating decision. Such a decision, as seen in Chapter 2, has its own idiosyncrasies requiring the agent to draw on particular stocks of knowledge as they navigate the “rules of the game”. Stones (2005) saw an understanding of conjuncturally-specific structures as central to a sophisticated understanding of the *in-situ*, practices of agents.

Conjuncturally-specific internal structures play an important role in linking the two forms of bracketing, context and conduct, in strong structuration theory. Makrygiannakis and Jack (2016, p.1243) situated conjuncturally-specific internal structures at “the meeting points of the two brackets”. They saw these structures as, contemporaneously, looking outwards to external structures whilst also pointing inwards to general dispositions. Stones (2005, p.107) specifically addressed the relationship between the two forms of internal structure:

“The general-dispositional will affect the phenomenological appreciation of the conjuncture, it is equally the case that the resulting (phenomenologically mediated) appreciation of the specifics of the conjuncture will have its own powerful influence on an agent’s ‘ordering of concerns’, and hence upon the configuration of the overall emergent hermeneutic frame.”

Stones (2005) identified the commonality these matters have with Giddens’ (1984) structures of domination and legitimation. Giddens (1984) included a third structure, signification,

representing the structures of communication and discourse. All three structures are relevant for an analysis of conjuncture-specific internal structures. Parker (2000, p.58) also emphasised the importance of 'practical consciousness' when thinking about such structures:

“subjective powers of agency therefore depend primarily on actors knowing how to do things, having a ‘practical consciousness’, of the appropriate rules for making sense of situations and a command of relevant resources”.

Stones (2005) conceptualises these structures as stocks of knowledge embedded in the conjuncture-specific internal structures of agents. These can be drawn on to inform them about how to 'go on' in a specific context. Stones (2005) saw the importance of an agent's habitus, but also the unique quality of the particular task, challenge, decision or other issue they are facing.

6.3 EMPIRICAL EVIDENCE ON INTERNAL STRUCTURES - GENERAL-DISPOSITIONAL

Habitus is conceptualised as a set of durable dispositions, tendencies and perceptions. They represent, “generative schemata” which “contribute to the production of social practices” (Mouzelis, 2008, p.230). In this study, the aim was to identify these broad dispositions or tendencies to discern if they are implicated in the practices of analysts.

The descriptions of habitus capture the somewhat ethereal nature of the concept which can make it challenging to apply systematically in an empirical study. Maton suggested that habitus was one of the “most misunderstood and misused” of the broad range of theoretical concepts of Bourdieu (Maton, 2012, p.48). One challenge is that, in common with structures generally, habitus is virtual so individuals cannot necessarily describe it and it cannot be observed. As an alternative strategy, researchers must “infer the habitus indirectly, from the way it manifests itself in specific situations” (Spence and Carter, 2014, p.952). Therefore, researchers need to discuss and investigate the practices of participants in the expectation that the exchanges will reveal the structures, including the habitus, which have played a generative role in their constitution. In this study, these themes included, but were not restricted to, how the individual had entered the field, how they react and feel when decisions do not go well drawing on specific situations they have faced, what motivates them and how they measure success. Before specifically addressing the fieldwork evidence, it is worth noting that Imam and Spence (2016), in applying Bourdieu's framework to analysts, noted the need for a habitus that allowed the accumulation of both technical as well as social capital. These technical (calculative) and social (interactive) aspects also arise in this evidence.

6.3.1 Informal and diversified field entry points

Habitus is “created and reformulated through the conjecture of objective structures and personal history” (Harker, Mahar & Wilson, 1990, p.11). Personal histories are a critical part of the conditioning that allows agents to develop into who they are, “the active presence of the whole past of which it is the product” (Bourdieu, 1990, p.56). In the semi-structured interviews conducted with analysts, participants discussed and reflected on their journey to the point of entering the field.

In contrast to formal professional fields such as, for example, medicine, law and accounting, there is no formal qualification path to becoming an analyst.²⁹

“Lawyers have to pass the bar, doctors have medical school and even stockbrokers need a license before practicing their crafts. But stock analysts, who can make or break a company's stock with their research, don't need any credentials to hang their shingles on Wall Street.”

(Kelleher, 2001, quoted in Qiang, Li, and Su, 2018)

The Chartered Financial Analysis (CFA) qualification is the closest existing qualification you can get to a standard qualification.

“I think it's standard within the industry, as you know, to do things like the CFA qualification. But I've found that, on a practical basis, they're not very helpful.”

(Analyst 2)

Interestingly, and in contrast to this analyst's view, the recent article by Qiang et al (2018) suggested that the recommendations of those analysts with the CFA designation outperformed those without the qualification.

Analysts focus on particular sectors which range from the highly specialised (for example, pharmaceuticals, aerospace, insurance, oil and gas) to much more mainstream sectors such as retail or consumer. Sectors attract individuals based on a combination of experience and, if relevant, educational speciality. Prior experience in a relevant industry has been found to be positively related to the quality of an analyst's outputs and career outcomes (Bradley et al, 2017). For these reasons, discussing and reflecting on the specific journey to the analyst field, rather than a focus on formal educational attainment, is a more fruitful path to explore and understand the habitus of the participants in this study. Within the group of analyst participants, there was a wide variety of routes to becoming an analyst. Although the

²⁹ All of the participants in this study were educated to at least first degree level but in a variety of disciplines.

discussion varied widely, the participants can be broadly categorised into two groups. The first group consists of those individuals that had another position and stumbled across the analyst field as they looked for 'something else'. These extracts, involving two accountants, typified such a situation:

"I was an accountant, for my sins. I found looking at historical data a little bit dull. I wanted to make a prediction, make the move from backward-looking for forward-looking."

(Analyst 5)

"...was looking for a change of career and equity research, being a little bit more forward-looking than the auditing and accounting world, was attractive."

(Analyst 8)

Note the reference to switching from the perceived backwards-looking orientation of accounting to something perceived as more exciting and forward-looking. The second path is where the individual had a deliberate plan and enduring interest in obtaining an analyst role, even if they had taken another position in the interim:

"After my graduation I thought it was best to be an investment banker and an analyst, rather than being an engineer in an auto company or something like that."

(Analyst 1)

"If we go all the way back, I worked in a whole range of jobs post finishing secondary school. At some point in my formative years I realised you were much, much better off being paid for what you thought, rather than for what you did. So in other words, I don't want to get paid for how many widgets I make, I want to get paid for how I think. That led me to two paths; whether I went into management consulting or went into equity research."

(Analyst 7)

"...went off and did some consulting but with a view in my mind the whole time that I'm looking for a segue into the industry. Being an analyst was, I thought, the most interesting."

(Analyst 9)

There are some significant facts in this evidence. Firstly, the motivation for joining the industry was about excitement and dynamism, especially when compared to an existing role they were performing. Secondly, the analysts participating in this research exhibited clear commitment to the field even if it was rarely something that had been planned through early childhood and education. Given the seniority of the participants in this study, commitment to their sector would be expected given that they had accumulated so many years of experience. Lastly, the diversity of experience and sector specialism meant that establishing commonality across the

analysts was difficult but, nonetheless, an attempt was made to discern patterns observed in the fieldwork data.

6.3.2 General-dispositional themes

6.3.2.1 Theme 1: A diverse view of the nature of the analyst position

What was the fieldwork evidence on how analysts perceived themselves in their position? Such reflections can be considered as interpretive schema as they are used by analysts to aid their interpretation of the world. For example, the prioritisation or ordering of concerns of an analyst would very much depend on how they reflect on the most important facets of their position. Whereas, in the section on conjuncturally-specific internal structures, the focus was more directly on perceptions of rating decision making, here we consider the perceptions of the role in general.

The first theme that arose when reflecting on the overall analyst position was the embedded flexibility of the role. It provides freedom to craft unique approaches to the position:

“It’s up to me how I run my own business. In a lot of ways there’s an element of entrepreneurship around what we do.”

(Analyst 6)

This agency is an important motivational aspect of the analyst position, which is returned to later. Here, the relevance is that such freedom means it is difficult to pigeonhole the position, and its consequent implications, in a simple way. Fieldwork evidence provided various descriptors including analysts as champions of market efficiency (Focus Group 4), a ‘walking encyclopaedia’ of knowledge (Sales 5), corporate ‘watchdogs’ (Focus Group 1) and ‘trusted advisor’ for the buy-side (Analyst 6). Perhaps the most effective analogy given the broader evidence from the fieldwork is that of a barrister:

“The other analogy I use is a barrister, on the basis that we provide them with a case for them to make that judgement on whether they think this is a more or less a guilty company than another one they were looking at. I don’t see it particularly – this is the controversial bit – as being an incredibly good stock picker. I think it’s back to my barrister point; it’s making the case and letting the jury or judge make the decision. But to some extent, if the guy was guilty and I let him off, controversially you’d say that I have done my job because I presented a case for them to decide.”

(Analyst 9)

The barrister analogy is interesting in that it emphasises that the analyst does not necessarily have to be ‘right’ in their stock ratings or earnings forecasts. Instead analysts can also add value through *process* rather than solely through the final result or output. In a similar manner

to a barrister, if the analyst presents a competent case, then a purpose has been served. In this metaphor of the analyst position, the battle for client attention (Baum et al, 2016), and the broker votes that hopefully follow, are rewarded at least in part for making a credible case. This would be interwoven with the access to management and industry expertise highlighted in Brown et al's (2016) survey of clients. This contrasts with a simple measurement of whether the stock call was 'right'. This perspective has important implications for academic research. If that research focuses only on a narrow definition of market-based success of, say, a stock recommendation, then it misses the 'barrister' type process role.

The other theme focused on negative characterisations of the role. These tended to be couched in disparaging comments about those analysts who acted as a mouthpiece for companies in a journalistic fashion:

"I suppose with the added benefit of looking back over 13 years, you quite broadly get two different types of analysts. You get the broadcaster type and you get the type that is much more adaptable to the skill-sets that are required."

(Analyst 10)

"You can be a good analyst because you have the best relationships with the companies, although I think that last one is dying out a little bit."

(Analyst 14)

6.3.2.2 Theme 2: High value placed on professional freedoms

Agency in structuration theory exists where, at a particular moment in time, an agent has choices and could behave in a different manner (Cohen, 1989). The fieldwork evidence confirmed that analysts experience substantial freedom and flexibility in the role and view this as one of the most cited reasons for continuing to work in the field. As a consequence of this freedom, they take significant responsibility for how they approach the specifics of the position, and in turn, the outcomes of their efforts. This openness and flexibility is very attractive to the incumbents as evidenced in these sample extracts:

"I think it's very entrepreneurial. I think, ultimately, there's not a set way of being a good analyst. You can be a good analyst on the numbers, you can be a good analyst because you came from an industry background and you perhaps have more foresight or thematic views into that sector."

(Analyst 14)

“One of the attractions of the job for me that fits with my personality is, if you’re driven enough and early in your career you ask for feedback and you’re lucky to have good mentors around you, good bosses, people who give you the inputs but also allow you to try to work it for yourself and guide you in the right place, I think then it’s a pretty flexible job in terms of the micromanagement. So I can’t work well being micromanaged, but that I realised later in my career.”

(Analyst 4)

Although, there are obligations as part of the analyst position, there is significant freedom and this is valued by analysts and is a crucial motivator in the job. The nature of the flexibility enjoyed by analysts is consistent with the concept of agency in structuration theory, where agents are free “to act otherwise” (Giddens 1984, p.14). Of course, also consistent with structuration theory, is the idea that no agent is entirely autonomous. The rigorous application of regulation means that there are more occasions where analysts are being told not to do what they were previously encouraged to do. Given a disposition to freedom, this provides grounds for a misalignment between habitus and external structures and is likely to prove difficult to reconcile for analysts.

6.3.2.3 Theme 3: The key measure of success is client votes

The contextual analysis produced strong evidence that external clients represent a critical agent cluster. Our fieldwork has provided evidence that formal client votes as well as other less formal client and corporate feedback are the dominant ways analysts measure their success. Running through all of the research data obtained from participants was the desire to be right and to be recognised, neatly summarised in this extract:

“In the simplest of terms, positive affirmation. That can come from a salesperson saying, ‘I really like that piece’, it can come from client votes, it can come from something as simple as someone taking your call when you call them.”

(Analyst 7)

The dominant single measure of success was external client votes. They play the role of interpretive schema helping the analyst make sense of the complex and multifaceted terrain in which they work:

“I define success as recognition by external clients. So that is validation of work done and validation of the strength of using opinions and the views of external clients. That to me is what defines success. Rankings, in other words.”

(Analyst 2)

“Client votes. That’s what drives everything.”

(Analyst 13)

As covered in Section 2.3, Groysberg et al, (2011) used proprietary data to confirm that client votes and feedback formed a critical component of a sell-side analyst's scorecard. There can be very few positions where such an important measure of success, central to internal assessment metrics, is delivered in such an open and 'public' manner. The delivery mechanism presents the chance for the analyst to be lauded or disappointed:

"Two or three times a week the reviews from the clients; of course, they're very public because they go around the whole firm. If somebody says, 'The client's called this person a numpty' or 'He used to be good and has gone off the boil', it's quite humiliating. Equally, it's quite rewarding if somebody makes a great call and it's his first time ever ranked."

(Analyst 3)

The importance of client votes to analysts' view of themselves extended beyond core professional work and ultimately into deeply personal matters:

"I think objectivity, honesty and integrity are the most important things. They're soft values, they're not easy to evaluate, I guess. But the way we usually evaluate is by client votes."

(Analyst 13)

This focus on external validation in an unusually public manner was traced by some back to their childhood and is embedded with a competitive streak that will be elaborated on in theme 6 below:

"I guess it's carrot and stick. The carrot is... the motivation is getting the recognition of being towards the top of the class. It's a bit like being at school in that sense."

(Analyst 9)

Interestingly, remuneration was rarely mentioned by participants as motivation.³⁰ One interpretation of this is that, given the well-rewarded nature of analysts' compensation, monetary needs were already satisfied and so it becomes a hygiene factor consistent within Maslow's hierarchy of needs.

"I think for most of us, or for me personally, I don't define success in monetary terms, because I think we're generally well rewarded as an industry."

(Analyst 2)

³⁰ Interestingly it was raised by one of the participants in the pilot interview stage:

"I think someone who doesn't tell that, he's a liar, remuneration of course, because salaries in the financial industry are above average when comparing with my friends who graduated at the same time and with this idea to work in other industries." (Pilot Interview 1).

"Let's ignore the money for one second. If money motivates you, I always believe that you'll never really get success."

(Analyst 10)

6.3.2.4 Theme 4: Avoidance of conflict and sensitivity to criticism

Traces of a conflict-avoiding habitus were present in a variety of the responses throughout the study. Given the importance of independence, which in many ways is incompatible with conflict avoidance, it is worthy of highlighting separately. The first extract is a reminder that, although the output of an analyst is in written form to investors, there remains significant face-to-face interaction with corporates. If an analyst has expressed a negative view of the company then presumably such interaction has the potential to be profoundly uncomfortable:

"From a personal point of view, I don't like conflict. You go to see these companies, you go to events that they're hosting. When I'm going to an event where I'm on the right side of the company's investment case, it's a much more pleasant trip than going to a meeting or an investor away day with a company that you know is aggrieved about your current views."

(Analyst 9)

Linked to this is the broader dispositional point that it is simply more pleasant to be positive. In many ways, this is consistent with the analysts themselves seeking positive affirmation, a part of their habitus mentioned above, and also unlikely to lead to conflict:

"I think it's harder to be negative on something than positive. I just think it's so much harder to pick holes and say, 'This is broken. This isn't going to work. The management team aren't doing a good job', as opposed to saying, 'God, this is really good. Everything is growing nicely. The management team are amazing.'"

(Analyst 11)

In a robust and demanding field, such as that occupied by analysts, there are a plethora of feedback channels. We have already seen that the broker vote is a critical part of how analysts measure their success. They, and other agents in the network of position-practice relations, use it as an interpretive device to make sense of their work and its impact. The results of this study suggest that despite the apparent contradictions between a competitive habitus (below) and public measures of success (above), analysts are indeed sensitive to criticism when engaging with key agents in context:

"I always think the difference between a research analyst and a salesperson is the thickness of their skin. I don't have very thick skin, so I will take any positive affirmation as a sign of success."

(Analyst 7)

6.3.2.5 Theme 5: Low tolerance for failures

To elicit the general-dispositional, researchers need to make real hermeneutic engagement with agents. The evidence provided by analysts, when discussing how they felt when ratings went wrong, illustrated their passion, deep commitment and ownership that they take to their work. As they reflected on painful career moments from the past, the substance of what they articulated extended deeply into perceptions of their professional competence:

"When I realised that I was really wrong, I was ashamed. I was ashamed of a lot."

(Analyst 1)

"Irritated because you're not right; you're wrong, you're missing something. Then you go through all that soul searching; 'What am I missing? What am I not seeing? What is the market thinking?' Especially it's, 'Am I missing something? Am I wrong?'"

(Analyst 4)

"A few times in my career I've extracted myself from a terrible recommendation and it's horrible and humiliating, but it's also quite cathartic once you do it."

(Analysts 3)

"I felt like a complete idiot, to give you the short description. I think part of this job is being human and also not being..."

(Analyst 6)

"It's slightly embarrassing, that's one word. I'd say frustrating. To some extent, it's demoralising. The embarrassing part is that clearly people think you haven't done the work and you've got it wrong."

(Analyst 9)

For some analysts, it was clear that any sense of failure affected them very profoundly. The highly personal nature of these comments tended to focus on embarrassment, shame, idiocy and humiliation, and all articulate the deep commitment that analysts have for the position. For others, their worldview, a crucial part of their general-dispositional frame, pushed back somewhat on the personal feelings and self-doubt represented by the earlier extracts. Nonetheless, these appear to be coping mechanisms rather than any sense of diluted commitment to the role:

"I don't think I was annoyed; I was disappointed the world changed too fast, but I recognised that it wasn't a flaw in something I'd done. The world had just changed."

(Analyst 2)

"I've got a reasonably thick skin and I don't really feel that bad about it. The thing that I feel bad about is people ignoring the research a little bit."

(Analyst 5)

"You've got to have a lot of conviction because the people who are then demoralising you will get more demoralising. The longer you go, 'No, no, people don't understand what's going on', the more you get people saying, 'Who the hell do you think you are? The market's telling you that you're wrong'. People stop listening to you."

(Analyst 9)

6.3.2.6 Theme 6: Competitive habitus

The previous section illustrates how deeply analysts felt when professional matters did not go well. Contemporaneously, analysts also exhibit a robust competitive nature firmly anchored as a disposition across the participants:

"I guess the competitive spirit and the drive to improve how our team is regarded. It's competitive and a drive to...in a world where there is a metric to be measured by clients, it's to improve how the client base sees you too. It's the competitive drive to add value."

(Analyst 2)

"I loved the competition of trying to beat other people, beating the market in terms of the story and seeing that story...the beginning of a story and then it snowballs and it becomes a bigger story."

(Analyst 3)

The expressions of analysts' competitive nature here are not subtle but very direct and articulated in strong language. This disposition increases in intensity within the field when the majority of analysts feel this way. They want to win and, if they are to win, then every avenue of advantage needs to be exploited. This need to win brings the direction of the thesis back to the relationship with companies and the importance of access to this core information source and associated relationships. Another related issue is how such a disposition interweaves with the very public nature of many of the analyst's metrics, in particular, client votes, which are valued so highly by analysts. This public display feeds competitiveness as levels of performance are widely available:

"This job is so competitive and unlike any other industry, your results are pretty visible. You know where you're going to get ranked, you know whether it's II or Extel, you know how you rank versus competitors."

(Analyst 5)

6.4 INTERNAL STRUCTURES - EMPIRICAL EVIDENCE OF CONJUNCTURALLY-SPECIFIC STRUCTURES

Turning now, with more specificity, to the task at hand entails exploring stock recommendation decisions made by participants. Through their immersion in the field, analysts will have acquired stocks of knowledge about this decision (Stones, 2005). Such stocks of knowledge would range from more routine matters, such as the typical processes involved in the majority of rating decisions, to less routine matters such as how to cope with, and react to, an underperforming rating decision. Section 3.6.1 of Chapter 3 has explained that conjuncture-specific internal structures could be thought of as the three modalities from Giddens (1984); namely, signification, domination and legitimation. These will aid articulation of the conjuncture-specific internal structures arising from the fieldwork.

The interwoven nature of human activity means that identifying conjuncture-specific structures distinct from habitus can present a significant challenge. Stones (2005) recognised this and accepted that conjuncture-specific structures could in reality only be identified from a dispositional starting point. Therefore, there is inevitable 'leakage' between the two types of internal structures. Given the proximity of both forms of internal structure, existing as they do in memory traces within agents, this is no surprise. However, distinguishing between the two continued to be an analytically useful exercise in this study.

Stones (2005) places agent's knowledgeability at the centre of this bracket. He saw these stocks of knowledge going beyond generalisable techniques and routines and instead the emphasis shifted to "specific knowledge of the specific circumstances of particular, shifting, contexts of time and space" (Stones 2005, p. 71). Analysts, drawing on their experiences of client, corporate and colleague interactions, have come to realise that there are certain 'rules of the game' when making rating decisions. For analysts, these are embedded in their knowledge of how to go about the stock rating decision. They draw on these stocks of knowledge, manifest only in application, in their work on stock recommendations.

In addition to directly exploring the conjuncture-specific structures of the agent in focus, extending this to the agents in context enriches the evidence collected. To interpret the actions of agents, and understand its genesis, Stones refers explicitly to the significance of the conjuncture-specific structures of others in the network. These will have significance even in situations where the agents in context were not specifically party to the conduct:

"The agent in focus view of the conditions for action will be informed by conjuncture-specific knowledge of networked others who may well not be involved in the interactional conduct that they so inform."

In contextual analysis, reference was made to the importance of position taking and making, as the agent anticipates the reaction of others in the network to different choices (Coad and Glyptis, 2014). The importance of this matter was evidenced in the fieldwork findings and reflected clearly in this extract:

"I think there's naturally an element of, 'How is the corporate going to react? How is the internal franchise going to react and how is the client base going to react?"

(Analyst 6)

Rating decisions were discussed at length in the semi-structured interviews. In the following sections, four themes are presented from the fieldwork related to analysts' conjuncture-specific knowledge: (1) ordering of concerns (2) calculative routines as legitimation structures (3) stocks of knowledge on specific rating choices and (4) analysts' conduct and practices when ratings go wrong

6.4.1 Theme 1: Ordering of concerns and the rating decision

How analysts reflect on the importance of the rating decision fundamentally impacts the depth of the stocks of knowledge they maintain in their internal structures. Stones (2005) spoke about the ordering of concerns in conjecturally-specific internal structures, in other words, prioritisation. It informs fundamental matters such as the level of effort and time that agents invest in a task and the associated behaviours that flow from it. Such reflections would also consider how important the critical agents in context, the "networked others", viewed the decision. We saw in Section 2.3 that some scholars see the rating decision as central to the entire sell-side analyst position (for example, Kecskes et al, 2017) whilst others produced evidence that it plays a lesser role than industry expertise or the offer of management access (Brown et al, 2015). There was also evidence that clients are not influenced by analyst ratings (Brown et al, 2016), however, this was contradicted by evidence that large institutional trades appear to follow the changes made by analysts (Chen and Cheng, 2006).

The fieldwork provided evidence that analysts and agents in context view the rating decision as important. However, it is not a clear validation of importance in all circumstances. Before addressing these matters, based on the evidence of participants, ratings act as powerful interpretive schema even amongst those who do not view the rating *per se* as being important:

"It creates a clear, short burst of a succinct message in terms of what you're going to get."

(Analyst 9)

"I think ratings do help them because that is your first sentence. You are saying, 'I like this company' or 'I don't like this company'. From that perspective, it's very helpful."

(Analyst 12)

The rating acts as a signalling device for users to anticipate and position the content before engaging with the report. Analysts draw on their structures of signification to communicate meaning. Therefore the rating plays a vital role as an interpretive device or tool in this articulation process. The importance of the specific rating increases where the analyst has a firmly held view and diminishes where the view lacks conviction:

"I think where you have a very fundamental view on a stock, your rating becomes more important."

(Analyst 8)

The role of ratings as an interpretive schema allows consumers of research to anticipate bias in reports where analysts may well interpret news from a particular perspective:

"I know full well, having been there, that if you have an existing sell recommendation, you tend to report every piece of news and spin it as bad news or vice versa. So I think the recommendation tells the reader the angle that this report is coming from; are they trying to justify a buy or justify a sell recommendation?"

(Analyst 3)

The view with regard to ratings amongst critical clusters of agents in context is broadly consistent with this evidence but does depend on the specific cluster in question, summed up neatly in this extract:

"I would say, based on the various stakeholders, for the corporates, relevant. For the internal franchise it's very relevant and for the external client franchise completely irrelevant."

(Analyst 6)

There was plenty of supporting evidence that salespeople could see the rating as most important. Given their time-space proximity to analysts this adds weight and significance to their opinions:

"I would be surprised if it wasn't very important. The whole structure of the industry is based on the recommendation."

(Sales 2)

Clients may not see the rating as an instruction to be followed when deciding to invest as confirmed by Client 5, "I'm not sure I rely on them at all for stock picking per se". However, the importance of the rating, as an interpretive device, remains:

"It's the content of the analysis and no one is too fussed about what the conclusion is."

(Client 2)

"It's quite a good guide for me, just to try to frame how I think about it. Do we trade on the back of the recommendations? Not really. That's not to say we don't, but it's not something that directly matters to us. It matters more in the signal than in the actuality of it."

(Client 3)

In the case of corporates, there was sufficient evidence that they remain interested in all research written about their company or industry and so it is no surprise they remain engaged in rating decisions:

"I wouldn't want a single sell so my mood would not be flat and I wouldn't shrug it off. I'd really be inquisitive about it."

(Corporate 3)

The evidence shows that there is a need to go beyond rigid interpretations of the role of stock ratings. A buy or sell rating, based on our fieldwork, is much more than an instruction to purchase or dispose of a share. Rather than a straightforward investment instruction, the rating can be seen as fulfilling a much more multifaceted role. It can be used by analysts in a way that allows them to effectively draw on sophisticated interpretive and signification structures. Based on this evidence, assessing ratings based solely on their success as investment instruction is likely to miss the broader, social, role they play.

6.4.2 Theme 2: Calculative routines and process as legitimating structures

Legitimizing structures establishes a suite of norms that allows an evaluative judgement of conduct within a particular field (Giddens, 1984). Sanctions are the result of agents' actions falling outside these parameters. The threat of sanction then becomes implicated in the practices of agents. As discussed in Sections 2.4 and 5.5.2, analysts use a variety of calculative tools and routines in their work. Such processes align with the familiar aspects of the job. For a rating decision, the most important routine is the preparation and maintenance of an appropriate valuation model. The output of such a model, when compared to the current share price, would logically lead to a decision about the rating (Jegadeesh et al, 2004). When making rating decisions, analysts would be expected to employ such calculative devices to legitimise their decisions. Stocks of knowledge about these processes represent

conjuncturally-specific technical know-how. The capability of analysts to draw on these basic legitimation structures is consistent with the norms of the field, which can develop into consistent practices such as:

“I think firstly, I always try to be very much up to date on the numbers, so I always have what I think is an intrinsic valuation for my companies and the coverage. So, a big driver of the ratings is ultimately what percentage upside or downside I have, versus my intrinsic valuation.”

(Analyst 14)

This indicates that the ability to draw on stocks of knowledge about valuation models arguably provides comfort to analysts. As outlined in Section 2.4, European analysts have been found to employ increasingly sophisticated DCF and ROE models, with the suggestion being that this shift may enhance the legitimacy of their work (Imam et al, 2013). However, the fieldwork has indicated that two further matters are relevant in the use of these routines for enhancing legitimacy. The first is accuracy. Analysts consider errors as highly damaging to the very legitimacy that these routines seek to achieve:

“I think what they would expect is accuracy, so they have zero tolerance for inaccurate numbers in the report.”

(Analyst 4)

The second is the experiences of analysts, gathered from immersion in the field, which allows them to evaluate their reliance on models and routines and learn from past errors and past successes. In turn, such experiences, and how analysts have internalised them, will be implicated in reproducing the importance of models as a legitimating device. In this example, an analyst learns from the error of allowing a desired rating to push the legitimating device:

“...sometimes when I made the worst decisions with stock recommendation, it's when I pushed my DCF to fit a stock recommendation and it's always been wrong.”

(Analyst 5)

Corporates expect these calculative routines to legitimise the analyst's rating work. In addition, analysts need to draw on structures of signification to communicate with corporates, in a compliant but effective manner, before a rating decision is made. Given the power structures embedded with corporates, it is no surprise that analysts seek such legitimation to avoid sanction:

“They'd have been all over their models. They'd have spoken to us generically about things that were changing in their models. I don't mean, 'I'm about to downgrade you'. When we see a change in the rating, the minimum is that it will suddenly make sense why they've been on the phone every day for the past three weeks.”

From the perspective of clients, analysts perceived that the legitimation process is more important in their early experiences with clients and, as relations of trust deepen, the extent of legitimation structures that need to be drawn on by analysts diminishes:

“There’s an expectation that you’ve talked to the company, you’ve talked to peers, you have done your industry analysis and you’ve built out your models. Whereas I think actually, as the client relationship deepens and the trust deepens, the kind of threshold for a ratings change is much lower.”

(Analyst 2)

6.4.3 Theme 3: Stocks of knowledge on specific rating choices

Stones (2005, p.89) spoke of the “rules and normative expectations” embedded within a particular position. He requires that the researcher should adopt the perspective of the actor dealing with the tones and shapes of specific tasks. Conjuncturally-specific structures link the internal structures of the agent to the external field, where these rules and norms are reproduced or transformed. This is a good example of how maintaining and enhancing relationships with critical clusters of agents in context can overwhelm economic rationale. The inevitable argument arising from this is that, even if an analyst’s research suggested that a particular rating classification was most appropriate, their knowledgeability of the social implications of these various rating choices would determine the final decision.

Three dominant themes emerged from the fieldwork; the perceived ineffectiveness of hold or ‘equal weight’ ratings; the paucity of sell ratings and the importance of sophisticated signification structures to convey meaning despite the apparent restrictions of formal ratings.

Hold ratings imply that the shares are fairly valued in comparison to other stocks, and so the market for that particular stock is operating efficiently. In this instance, how are consumers of research to interpret such a rating?

“I hated hold recommendations, because they robbed you of the fight on the debate.”

(Analyst 3)

“I hate equal weight ratings, personally. I generally, other than one or two, tend never to have them because what value are you really adding to an investor if you can’t tell them, ‘This company has value’ or ‘It doesn’t have value’?”

(Analyst 5)

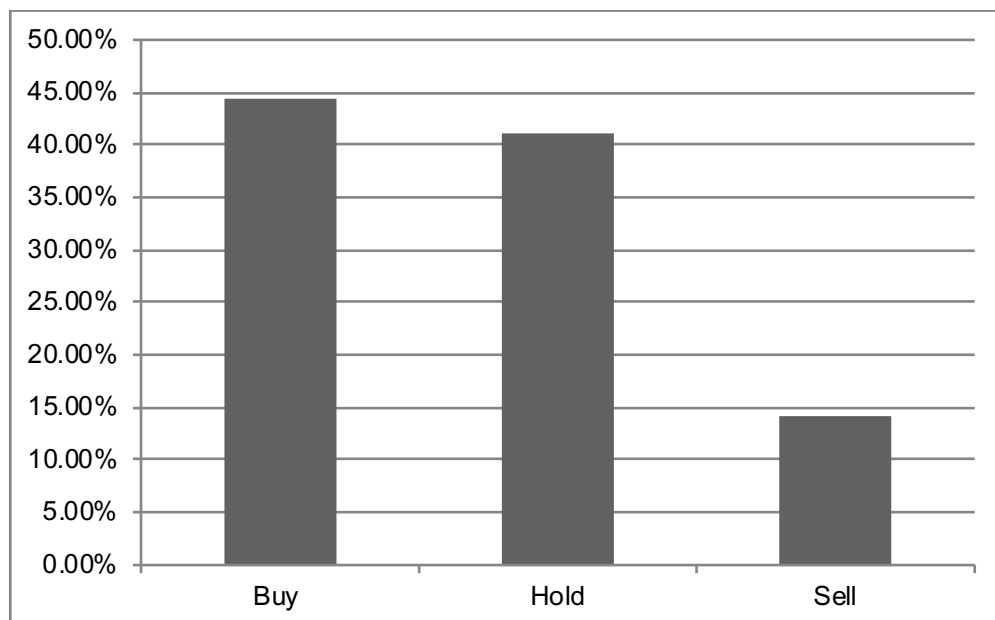
“A hold is meaningless; a sell and a buy don’t really matter. It’s the arguments that back your point up.”

(Sales 6)

If an analyst goes through the various calculative stages of the rating process and it appears that a hold recommendation is appropriate, then he will start to draw upon the structures of signification and legitimation in the field. In drawing on signification structures, the analyst will hope to communicate meaning with the rating. However, the challenge would remain as to how to communicate a meaningful message that would gain client attention with a hold recommendation. The analyst’s knowledge of the field would inform them that such a piece of work is likely to be ignored. The sanction for going ahead with such a rating would be the likelihood of minimal sales engagement and, ultimately, lower client votes.

Evidence of the low level of sell ratings in the market is reflected in the literature. For instance, Womack (1996) found a buy/sell ratio in the US of over 6.0:1, whereas a decade later, Ryan and Taffler (2006) found the ratio much lower at 2.3:1 in a European context. Figure 6.2 below provides very recent evidence of the level of sell ratings in Europe, with a ratio of buys to sells of 3.1:1. This illustrates that the paucity of sell ratings has persisted over many years.

FIGURE 6.2. DISTRIBUTION OF BUY-SELL-HOLD STOCK RATINGS ACROSS EUROPE³¹



In this study, it is asserted that this pattern emerges from the profoundly social nature of the analyst field. The contextual analysis found that corporates draw on powerful structures of

³¹ Data source is Starmine, on 29th, May, 2018. Universe is stocks in Europe with a market capitalisation in excess of \$5bn, 553 stocks in total.

domination to achieve their aim of influencing analysts. This desire for influence is especially acute in the specific context of the prominent rating decision. Analysts will draw on their knowledge of the conjuncture-specific structures of senior corporate officials in making their decisions. They will envisage how these agents in context will draw on their power structures as they react to a rating decision. Such thinking was described as self-censorship by one analyst:

“On the corporate side, I think there is definitely a greater sensitivity to underweights and sell recommendations than to buy recommendations. I still think that as an industry – and an individual – we self-censor a little bit on the negative side where we think there will be relationship implications.”

(Analyst 2)

A more nuanced point is that, even where analysts have sell ratings, they are generally on smaller stocks that get little attention:

“They will say, ‘Look, I’ve got my three sell ratings’. You go, ‘Yes, the combined market cap of those is still smaller than any other stock in your coverage’. It’s almost like you’re only covering them to park them on a sell rating forever.”

(Sales 1)

The persistence of the low level of sell ratings goes on despite complaints from clients about the lack of short (i.e. sell) ideas and the fact that analysts could gain vital clients votes from filling this gap:

“There’s a real lack of alpha on the short side. It’s probably the thing that hedge funds complain to me about the most.”

(Sales 1)

Finally, evidence that analysts need highly attuned signification skills was present, albeit indirectly, in many of the responses. If ratings are used as an interpretive device then communicating meaning becomes paramount. Research studies have increasingly focused on whether other information contained in a report can be combined with the formal rating to achieve a more meaningful interpretation of the analyst’s opinions (Section 2.5.3). We have already seen that analysts will adapt their comments on intellectual capital information in reports to control and subdue the inevitable negativity associated with an unfavourable rating (Abhayawansa and Guthrie, 2012). Similarly, Caylor et al, (2017) found that the text in analysts’ reports allows investors to discriminate between ‘good’ and ‘bad’ buy recommendations. To be able to communicate at such a sophisticated level requires highly developed discursive practices, covering both structures of verbal and written communication. Given that participants in the field understand the rules of the game, there is a mutual cognitive

understanding that, for example, sell recommendations may be problematic for an analyst. In which case, drawing on signification structures, analysts can still communicate the meaning needed. However, when it goes wrong sanction swiftly follows:

“All we got wrong was the tone of the note. The analysis, I obviously believe, is superb, but it needed to be toned down a bit. You’re not running a business well if you’re offending your own clients, writing an independent product that pushes the shares down quite that sharply. It’s just a question of getting the balance right.”

(Sales 6)

This nuanced use of signification structures also enables analysts to distinguish conviction between stocks even while maintaining the same rating. For example, how an analyst pushes a buy recommendation is just as important as the actual rating classification itself:

“I think that actually, rather than your overall alpha and all your ratings, it’s more important which ones you push. You could have a soft buy on something and no one’s going to hold it against you, unless you actually told them to buy it.”

(Sales 1)

6.4.4 Theme 4: Analyst conduct and practices when ratings go wrong

The discussion of habitus illustrated the depth of personal feelings analysts expressed when their decisions went wrong, or they made errors. The capability to cope with these type of situations effectively ‘is acquired and embodied over time’ (Stones 2005, p.91). It is internalised in stocks of knowledge as the analyst gains experience. This extract identifies the importance of these matters to generate the trust analysts need to perform their work:

“I think there are a few things around the word ‘trust’. I think one is that people believe you as a person; not just believe your product but believe you as a person. Arriving at that place is normally arrived at in the way you wouldn’t have thought, which is, you have to make mistakes and own up to them along the way.”

(Analyst 6)

One of the most difficult, and public, situations an analyst is likely to find himself in is a rating decision that is going against his expressed view. Analysts recognise that when things are going wrong, doing nothing is not an option:

“I think what clients despise more than anything else is not that your opinion was wrong, it’s that when it was wrong, you were nowhere to be seen.”

(Analyst 8)

“...clearly if you’ve got a buy and the shares are collapsing or a sell and they’re doubling or trebling, just to get yourself out of that.”

(Analyst 3)

The cogent response is for the analyst to draw on their signification structures and communicate with the market. For most analysts, their experience would tell them that stepping back, considering what is happening dispassionately, is the appropriate reaction. Such a reaction dovetails with the habitus point made earlier about the self-questioning nature of analysts in general:

“You take a step back and you look. Whether you’re right or wrong, you have to wonder whether you’ve got the timing right and what the opportunity is for that and where it goes. The decision comes down to when I realistically think that the issues I’ve identified are going to come back and bite them, if they are or if I’ve completely got it wrong and need to move on.”

(Analyst 8)

Analysts will draw on their knowledge of networked others as rating decisions are adjusted and updated. Salespeople will be an especially important agent in this context given their time-space proximity as discussed in Chapter 5. Analysts will encounter the sales force frequently as stock recommendations play out in the market. Therefore, anticipating their reaction will be implicated in how the analyst acts:

“Again, because I’m working with the teams, the good ones have been where we capitulate together. If we’re capitulating together, it’s not my analysts said this or therefore no; we’re in it together.”

(Sales 3)

“If I were an analyst and I were in that situation – and I’m vaguely conscious of it myself, obviously – eating humble pie is a very difficult thing to do, but it is so, so respected by the buy-side. I don’t think it’s done often enough.”

(Sales 6)

6.5 CONCLUSION

This chapter has set out empirical data for evidence of the internal structures of the agents in focus in the field. Consistent with the ontology of strong structuration theory, this entailed addressing not only the transposable habitus but also examining the more specific internal structures drawn upon by agents when faced with specific contexts and tasks. Stones (2005, p.122) refers to the “sifting and sieving” that occurs at the point where the general-dispositional attempts to reconcile with the conjuncture-specific. Even in highly specialist fields, the choices agents make to take one course of action over another will not only be down to task specificities but also to their habitus.

Distinguishing between habitus, conjuncture-specific internal structures and indeed active agency has proved challenging. This is not a surprise given the interwoven nature of human activity.

Establishing commonality of habitus across analysts who arrived at the field having followed such diverse paths is a fascinating task. Also, given the durable, personal nature of an individual's habitus, the approach to collecting evidence need to be sensitive to the hermeneutics of actors. The patterns identified provide important insights into analyst conduct. The varied backgrounds coupled with the agency intrinsic to the analyst role implies a complex and diverse field. This is critical as it provides clear evidence that attempts to pigeonhole the analyst position narrowly, say for example to argue that it is predominantly about forecasting or stock picking, are inappropriate. The position is shaped in substantial ways by individual incumbents. Perhaps, with such inherent variegation, it is no surprise that our fieldwork suggests that analysts hold dispositional frames that are somewhat incompatible. The high profile and open client voting process is the central measure of success and so inevitably is the interpretive schema through which analysts assess their impact. Analysts feel failure profoundly, perhaps exacerbated by the high visibility of their performance metrics. They tend to avoid conflict, desire positivity in their views on companies and are sensitive to negative feedback. Also, there is a competitive habitus often articulated in strongly worded language.

Examining habitus alone did not provide the level of specificity needed to understand complex patterns of practice. It is "little more than theoretical icing on the empirical cake" (Maton 2014, p.62), without the addition of specific context and, ultimately, the broader field. To achieve this the study focussed on the specific context of analysts making stock rating decisions, and in particular, the stocks of knowledge they draw on as they go about making such judgements. Analysts' interpretation of their actions helped unpick the drivers behind the decision-making process. The subtlety required in such an approach illustrates the challenge of applying the quadripartite elements in a sequenced 'box-ticking' manner. The connecting tissue is so integral that there can be no strict dichotomy between the elements. This should not be interpreted as a weakness but instead as the reality of applying the model at a detailed level in an empirical study.

In considering the primary concerns of analysts, rating decisions appear to be high on the prioritisation list. However, their importance is less as a direct investment instruction and much more as an interpretive schema for deciphering analyst research in general. Clients appear to value process, analytical thinking and information management. Such a view contrasts with a limited focus on outputs alone. The evidence suggests that calculative routines played a vital role as legitimating structures. There is a significant recursive dimension here as analysts will often inherit models as they take up positions in the field and so will be disposed to make use

of them. Experienced analysts will be aware that various rules of the game inform their choices when it comes to rating decisions. The fieldwork evidence identified two of these; the perceived irrelevance of hold recommendations and the potential sanction for sell ratings. Finally, on those occasions when ratings have inevitably gone wrong, experienced analysts had developed highly-attuned signification structures to ensure trust and legitimation were not eroded.

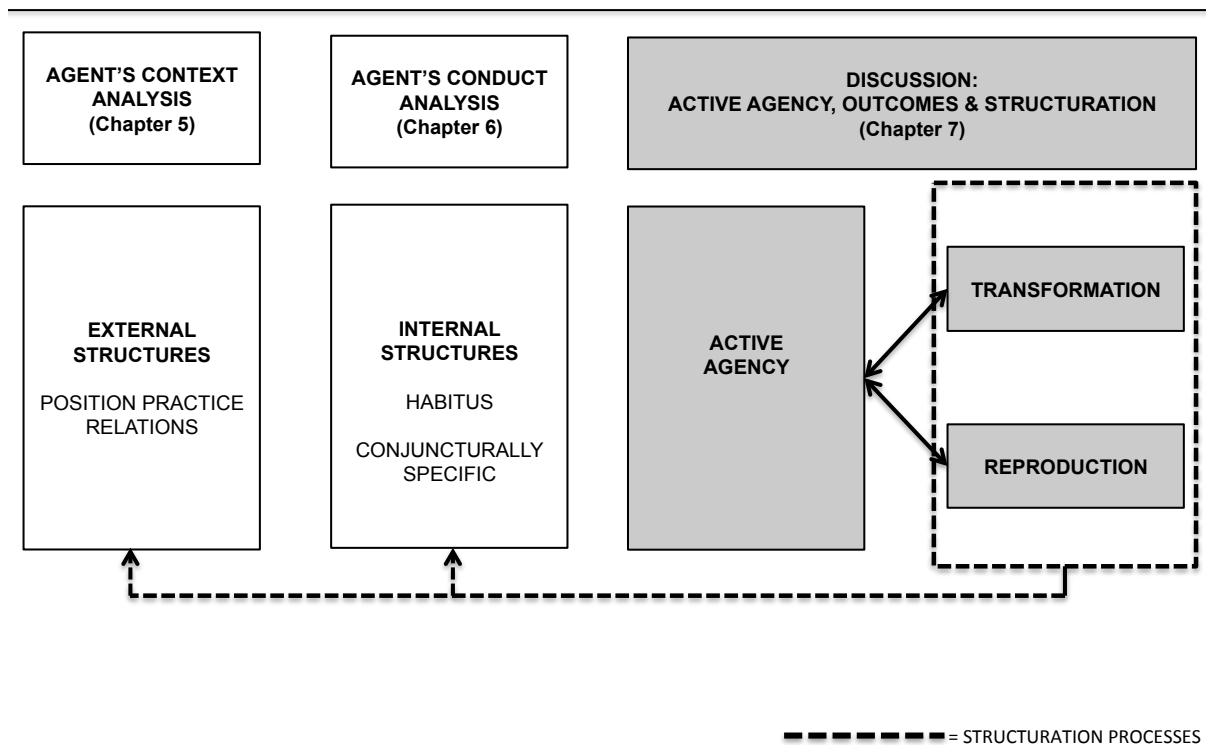
In Chapter 7, the analysis outlined in Chapter 5 and 6 is combined, together with an examination of active agency, in order to flesh out the structuration processes that ultimately contribute to the practices of analysts when making rating decisions. Such an analysis requires the researcher to go back and forth through the elements of the model as one aspect informs another. Based on the analysis undertaken, it is clear there is fertile ground for enquiry. For example, the dearth of sell recommendations can be traced to external structures in the form of power relations with corporates, a habitus which seeks conflict avoidance and conjuncturally-specific knowledge that sells are particularly high-profile decisions. Also examining aspects of incompatibility between dispositions on the one hand and external structures on the other is worthy of investigation. For example, the discord between a dispositional desire for the enjoyment of agency and the immutable external structure of regulation is undoubtedly involved in the reproduction or transformation of practices. Issues of ontological security, anxiety and unintended consequences can, and do, flow from such disturbances.

CHAPTER 7.
ACTIVE AGENCY, OUTCOMES AND OVERALL
DISCUSSION

7.1 INTRODUCTION

This penultimate chapter takes the major aspects of context and conduct analysis and integrates active agency and outcomes to complete the structuration cycle. The chapter begins by revisiting the research questions originally presented in Chapter 1 (Section 1.5) and relating these to the major findings from context analysis and conduct analysis. Given the interrelated nature of the elements of the quadripartite structuration framework, the overall research question cannot be answered without integrating active agency and outcomes. Therefore, at this point, active agency is explored using the stratification model (Giddens, 1984) and then the final part of the chapter interweaves the various strands together. This final section is organised around the major structuration cycles that are in operation in the analyst field, based on the fieldwork.

FIGURE 7.1. QUADRIPARTITE MODEL OF STRUCTURATION



7.2 REVISITING THE RESEARCH QUESTIONS

The organisation of this thesis has been, to a great degree, influenced by the methodological bracketing of strong structuration theory. This extended to the nature of the research questions first set out in Chapter 1 (Section 1.5) and reproduced here:

How do social structures and agency interact and influence sell-side analysts making stock rating decisions?

This was then broken down into two sub-questions reflecting the bracketing of strong structuration theory:

RQ 1: *How are the practices of sell-side analysts shaped by, and in turn, how do they shape, the position-practice relations network in which they are embedded?*

RQ 2: *How is the process of reconciliation between the internal structures of the analyst (habitus and conjuncturally-specific knowledge) and the contextual field implicated in practices around rating decisions?*

The first sub-question is one of context analysis. Section 7.2.1 below summarises the main context related findings that address this question. In a similar manner, the second sub-question focuses on the strategic conduct of agents and hence is a conduct analysis question. Section 7.2.2 lists some of the major relevant findings that address this question. Given the diverse range of findings, arising from conduct and context analysis, unpicking and isolating individual elements can only provide a partial picture. Excessive quarantining of particular fragments of evidence is also contrary to the spirit of a quadripartite. Therefore, to address the overall research question the analysis needs to become, unavoidably, and unapologetically, intermingled between conduct and context analysis, extended to include active agency and outcomes. Therefore, the analysis is brought together in the form of a series of structuration cycles set out in this chapter (Section 7.4). It is only in these cycles that all of the various elements of the theory and empirics can be combined to reveal the underlying processes at play.

7.2.1 Main findings from context analysis

A broad range of characteristics of the analyst terrain has surfaced from the fieldwork. This section sets out a summarised listing of the major matters that feed into the rest of the chapter.

7.2.1.1 Regulation is an independent causal influence

A critical finding from the fieldwork is how regulatory developments have, over time, permeated down to the day-to-day practices of analysts. Certain previously archetypal analyst practices have now been prohibited. For instance, when faced with breaking news, prompt communication with key internal and external clients is often not possible. Instead, any communication must be delayed until the publication of a report.

7.2.1.2 Sales force represents a meaningful and neglected agent cluster

Time-space has a distinctive position in structuration theory. In the fieldwork, it sensitised the empirics to the privileged position occupied by the sales force, a critical cluster of agents in context with unique needs.

7.2.1.3 Corporate-analyst power dynamics pervade the field

The relationship between the corporate and the analyst remains the crucial power nexus. It takes on complex dimensions which include matters of control, influence and trust. Furthermore, resistance by analysts means limits are put on the level of control or power that companies can exercise, an example of the dialectic of control.

7.2.1.4 The durable nature of the analyst field

Experienced analysts specialise in a sector and so, after many years, are unlikely to change this specialisation lightly. Similarly the experienced agents in various clusters are also likely to remain in the industry. Therefore, analysts need to sustain relationships in the field over the long run.

7.2.1.5 The importance of trust

Fieldwork evidence identified trust as an important feature of the network facing analysts. This was manifest in both system-based trust and personal trust. How this trust is constituted in structures in the field is considered in more detail in Section 7.4.7.

7.2.2 Main findings from conduct analysis

This section sets out a summary of the major findings from the examination of the internal structures within the agent. It is these structures that interpret the terrain facing the analyst.

7.2.2.1 The habitus of analysts is diverse and often in conflict

The variegated paths analysts followed to the sell-side makes pinning down a typical 'analyst habitus' difficult. Such diversity is exacerbated by the absence of formal qualifications such as those required in professional accountancy or law. Across the participant group, certain commonalities emerged. Overall, analysts tended to approach their role with a serious professional attitude and experience failure very deeply. They regard feedback, especially from clients, as hugely important in how they and others judge their success. Despite being sensitive to criticism, they are often very competitive.

The inherent conflict within the analyst habitus was summed up by an analyst interviewed as part of the validation exercise: “I am competitive, opinionated, logical and at the same time needy for affirmation” (Analyst V2).

7.2.2.2 The rating decision is an important one

The evidence was mixed with regard to the importance of the rating decisions in the literature (see Section 2.3). The fieldwork provided evidence that supports the significance of the decision although there was variation across agents in context and some analysts. The evidence was clearest on the importance attached to the rating decision by the sales force and covered companies. Although clients suggested that they do not rely on analyst rating decisions, two factors are relevant here. First, clients have a vested interest in denying the importance of analysts’ stock calls so that investment performance is down to their skill. Secondly, if an analyst produces a series of poor (good) stock recommendations, it is highly likely that these would reflect negatively (positively) on broker votes.

7.2.2.3 Calculative routines as legitimating structures

Analysts make extensive use of spreadsheet-based models, technical routines and data sources in their work on recommendations. These can be seen as legitimating structures which provide explicit evidence that analysts have done work to justify (i.e. legitimise) their decision.

7.2.2.4 The analyst as barrister metaphor

There were a number of metaphors mentioned by participants when considering the nature of the analyst position. However, the barrister metaphor, although only mentioned by one participant, was the most powerful in encapsulating broader sentiments about the analyst position expressed across the fieldwork. It emphasised the importance of the stock rating as a process a professional analyst must complete to the best of their ability. In a similar way to a barrister, the outcome of a rating (or court case) cannot be guaranteed, but it is in the presentation of as compelling a ‘case’ as possible that the obligation of the analyst is discharged.

7.2.2.5 The norms of the field are implicated in the paucity of sell ratings

Data shows that there is a small percentage of sell or underweight ratings in the market. The reasons for this are complex and require the analysis of relevant structuration cycles. These are explored in detail in Section 7.4.1.

7.2.2.6 *Success is measured by positive feedback especially as client votes*

When asked about how they measure success, broker vote scores dominated the responses. The widely disseminated broker vote takes on the role of an interpretive artefact or schema.

7.3 ACTIVE AGENCY AND RATING DECISIONS

The acting agent is addressed in strong structuration theory as an element of the quadripartite framework. Stones (2005, p.100-104) proposed a number of matters to be addressed in his conceptualisation of active agency. In Giddens' work, the acting agent was represented by the stratification model (see Chapter 3, model reproduced below in Figure 7.2). There is a significant commonality to both notions of agency (Stones, 2005, p.101) and so both are combined in the analysis for this study. Importantly, in this study, these models of action are extended with the inclusion of confidence as a basis of action (Barbalet, 2001).

Prior to exploring the detail of the rating decision, it is important to appreciate that the stratification model, represents active agency as a continuous flow (Giddens, 1984). Agents' practices and decision making should always be thought of with this sense of momentum. One decision will be followed by another. Decision making takes on an almost kinetic quality whereby one decision energises the need for another decision. This is especially applicable to rating decisions. By way of illustration, if an analyst upgrades a stock, a natural follow-on from this is to consider recommendations for other stocks given the desire for some sort of overall balance.³² Therefore, analyst judgement cannot easily be delineated in discrete units of 'recommendation'. Instead it is part of a larger, perpetual process. This is a point under examined in the mainstream literature where each rating decision is typically looked at in isolation. Here is an example of an analyst speaking of the 'scars' from recent, in this case poor, rating decisions:

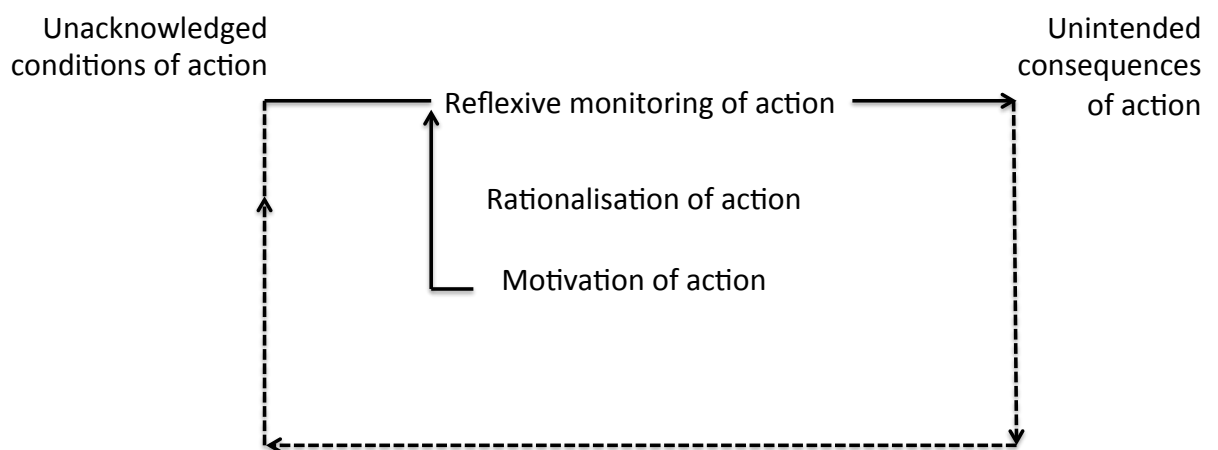
"So, one of the things that's a bit weird – and I remember this very clearly – you have a sell recommendation, it's gone up and up and up. You cut it to a hold and say, 'Sorry, we're wrong'. Then, a week later, you go and present to a client you've never met before and they don't know the whole backstory. You start on the first slide with your recommendations; 'Oh, you've got a hold on company X'³³. We don't need to talk about that because you don't have a strong view on it'. You think, 'Whoa! Wait a second, that's a stock that's been a scar on me!'"

³² This is especially the case with relative rating systems discussed in Chapter 2. Such systems require the analyst to rank stocks within a sector. If one stock is, say, upgraded then by implication it will have jumped ahead of others and so further 'knock-on' rating decisions may be needed.

³³ The actual company name was provided but has been removed to help protect the anonymity of the participant.

The study asserts that to understand an analyst's rating decision requires an understanding of their legacy of failures and successes on specific stocks. This would require more in-depth analysis than exploring their overall stock rating record. Therefore, it is the record on specific stocks that may be most revealing and so this is set out as a potential avenue for future research in Chapter 8 (Section 8.7.2).

FIGURE 7.2. THE STRATIFICATION MODEL³⁴



In the following sections, each element of the stratification model is discussed in the context of an analyst making a rating decision. In addition to the original elements from Giddens (1984), two further aspects are included; the “degree of critical distance and reflection” and “shifting horizons of action” from Stones (2005) and “confidence as a basis for action” from Barbalet (2001).

7.3.1 Degree of critical distance and reflection

In general decisions about stock ratings are not routine matters. However, there would be significant differences between individual rating decisions. For example, if an analyst had a negative rating on a stock for a long period, then a decision to upgrade it to a buy is likely to demand more analyst resource and extended reflection. Updating numbers whilst maintaining an existing rating would be a much more routine matter. The importance of this is clear in the work of Mouzelis (2008), who argues that reflection and distance are all bound up in the criticality of the position and the decision. For instance, consider a company where an analyst has a strong buy. If that company came out with an unexpected profits warning, this would

³⁴ Giddens, 1984, p.5

represent a situation of crisis. In such a situation, the degree of critical reflection would increase as it moves away from the routine. Mouzelis (2008, p.117) saw the degree of criticality as integral to distance and reflection: “..sometimes... strategic considerations are peripheral, and at other times they are dominant”

7.3.2 Rationalisation of action including ordering of concerns

One would expect that an agent would have a belief that a particular course of action, in this case a rating choice, would result in a certain “quality of outcome” (Cohen, 1989, p.50). The assessment of a likely outcome would be informed by the analyst drawing on their conjuncturally-specific internal structures. For instance, the analyst would draw on their stocks of knowledge about previous rating decisions, and those of other actors in the field, and hence the likely reaction from corporates, client and salespeople. Additionally, their habitus would act to limit the range of possibilities that would fit with their dispositional frame.

When conceptualising action, it is important to recognise the plurality of internal structures in operation within agents (Stones, 2005, p.104). Tension may arise due to the “cross-cutting nature” of activity. Agency embraces both the positional in the field (the individual agent as an analyst) and their broader social identity (the individual as, for example, a mother, wife, analyst and political activist). These general-dispositional frames, in turn, affect the assimilation of the specific conjuncture. Consistent with this notion of plurality, Stones (2005, p.103) discusses the internal conflict that might arise within agents as they rank which projects and roles to give priority. For illustration, an analyst would have a range of stocks which would be candidates for a rating change, and they would have to choose which stock to address next. The outcome of such deliberations may not be as expected and may lack coherence and orderliness.

In their deliberations an agent would take account of the “chances of success, and about the probable attendant costs, associated with particular projects” (Stones 2005, p.103). For instance, an analyst may be faced with a complex, reputationally risky rating decision, as against one that is much more likely to lead to a positive outcome. In their deliberation, habitus and past experiences of rating successes and failures would have a significant impact on such prioritisation decisions.

7.3.3 Motivations

The fieldwork evidence has confirmed that recommendation decisions are, in general, perceived as important and so the expectation would be that the motivation for a rating would be clear, deliberate and conscious. However, by conceptualising the active agent as embedded in an incessant flow, it is likely that such decision making is the amalgamation of

numerous smaller decisions with conscious and unconscious elements. In addition, the motivation to make the 'best' (as in predicting future stock price movements) may not actually be the motivation at all. For example, the motivation in the extract below is not to be 'right'. Instead it is to 'add-value' and to allow investors to discriminate between the different ratings:

"I was doing a compare and contrast note, so what was the point? I thought this even before I started writing; what was the point, really, in coming out with three buys? That really wasn't going to be value-add. Although it's within a wider sector, I was trying to carve out a niche for myself. So, I thought, 'I'm going to have to differentiate between the three of them. Let's have a buy, a neutral and a sell'."

(Analyst 11)

7.3.4 Shifting horizons of action

The analyst will choose to designate certain aspects of their terrain as especially important, the "contexts of relevance" (Stones, 2005, p.101). It is these particular structures that would be animated whilst making certain types of decisions.

Again, the importance of differentiating rating decisions becomes clear when examining specific horizons. The fieldwork evidence has highlighted the importance of power dynamics between corporates and analysts. Consequently, if an analyst were making a controversial call on a company, the analyst would designate a particular context of relevance around the company and its management as well as those clients who own the stock. They would reduce the context of relevance around other companies operating in different subsectors and clients with little interest. By further illustration, if an analyst is contemplating a sell rating, then they would be aware that many long-only funds would have no interest in the investment idea, but that hedge funds would be highly engaged. Therefore, the social terrain takes on different shapes and forms depending on the specificities of the decision. It is not a flat, constant space.

7.3.5 Confidence as a basis for action

Neither Stones (2005) nor Giddens (1984) explicitly addressed confidence in their theory of action. Nonetheless, in the fieldwork it is evidenced as critical and emerging, both directly and indirectly.

The term 'confidence' can take on a variety of meanings (Barbalet, 2001, p.83). It can refer to trust, as in being confident in another person's abilities. Alternatively, it might express a degree of assuredness about the future. For instance, being confident about a particular outcome. Lastly, it can convey a level of self-assurance in one's capabilities. In the discussion of micro-level decision making by analysts, it is this latter interpretation of 'self-understanding' of confidence that is most interesting.

Confidence is not obviously associated with emotion (Barbalet, 2001). Its emotional character is highlighted by contrasting it with more recognised emotions. And so confidence is the antithesis of anxiety, grief, dejection and low spirits (Barbalet, 2001, p.85). These latter emotions leave actors lacking the resources and impetus for action. Confidence, on the other hand, emboldens actors with “self-assurance” and acts as an incentive for action (Barbalet, 2001, p.86). As a logical consequence of this, Barbalet (2001) contends that confidence is central to action and indeed represents the basis for it:

“Ultimately, then, the future remains unknown; and that which achieves its engagemment is never only information or calculation, but necessarily a feeling of confidence.”

(Barbalet, 2001, p.86)

In order words, calculative reasoning gives way to emotion (confidence) as the basis for action (Barbalet, 1996). The impact of negative emotions was reflected directly in this comment:

“When I look at analysts that are struggling around me and analysts that are good, I tend to find that the ones who are struggling have a lot of self-doubt within them that is holding them back from making that call or putting out that note or delaying things etc. It holds them back.”

(Analyst 6)

The rating decision is anchored in trying to predict the future. Barbalet (2001) saw the object of confidence as bringing a “possible future into the present” (Barbalet, 2001, p.88). Although calculative routines can reduce perceptions of uncertainty, the emotion of confidence is needed to provide reassurance about, amongst other things, these very calculations as mentioned by a participant analyst, “you need to have a decent degree of confidence behind your assumptions to get to an accurate valuation” (Analyst 14).

The genesis of confidence arises from recognition and acceptance (Barbalet, 2001). For analysts, there was extensive evidence that recognition by clients in particular is the critical measure of success. It also can engender confidence as both acceptance and recognition would be embedded in broker votes. An analyst who gains higher levels of broker votes from a client is likely to have higher levels of confidence and to be more inclined to engage in future interactions. Confidence develops over time, as is evident in this analyst’s comment:

“Initially I was so scared of the clients and when I was in front of them I was thinking, ‘Okay, they’re going to ask me something that I have no idea about. How do I answer this?’ But with experience you start to learn that actually, clients are not better than you. You look at companies in-depth and they don’t have enough time to look at these companies, so you are the expert and you are going to tell them. You start to build up confidence which is very positive in your presentation as well.”

(Analyst 1)

Importantly, the norms of what an analyst needs to do to legitimise work diminishes as others gain confidence in their capabilities. The extent of work an analyst undertakes on a rating decision is a function of the confidence in a client relationship:

“Whereas I think actually, as the client relationship deepens and the trust deepens, the kind of threshold for a ratings change is much lower. It can be something as simple as an insight from talking to a management team or changing competitive dynamics and just seeing turning points in the industry. I think the threshold for rating change is dramatically lowered if client confidence has been built up at the time.”

(Analyst 4)

7.3.6 Unacknowledged conditions and unintended consequences

The ontology of structuration reserves an important place for the concepts of unacknowledged conditions and unintended consequences of action. Importantly, in interpretive research we are seeking to understand the lived experiences of agents and so:

“What was unintended would therefore depend upon what purpose was intended by the agent when she performed the action that led to the said consequences.”

(Stones, 2005, p.78)

There is a need to access the inner thoughts of agents to ascertain and explore this intentionality. In making rating decisions, analysts would ideally desire a stock call that predicts the future accurately and garners internal and external client support as well as admiration from companies. Unintended consequences would include a negative reaction from the company perhaps including the withdrawal of information access:

“My colleague actually, very recently, was not invited to an investor day. He found out about it, asked to be allowed in and they said no. He had a sell on the stock and they basically refused him entry.”

(Analyst 9)

It could also be lack of support from the sales team thereby undermining the impact a call could make or result in clients not acting upon the advice and not voting for it.

7.3.7 Conclusions

The stratification model sensitises researchers to a range of dynamics within the analyst rating decision that might be omitted by an overly simplistic approach. In particular, the following matters were highlighted in this section:

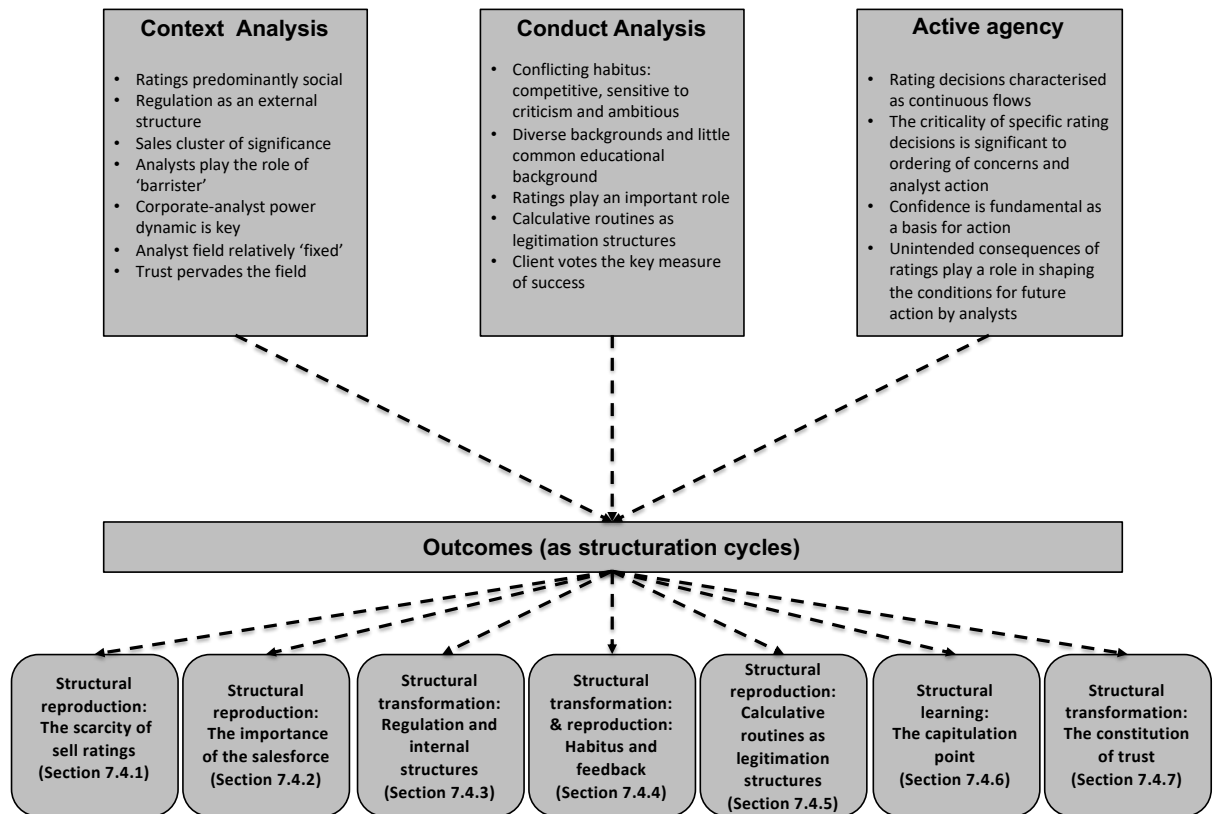
- There is a continuous flow of rating decisions rather than a series of individual isolated events;
- Ordering the concerns of analysts is significant in considering analyst action;
- The designation of the 'context of relevance' varies dependent on the particular rating decision;
- The criticality of specific rating decisions is significant in considering how analysts act;
- Confidence is a fundamental aspect of analyst action in making rating decisions;
- Unintended consequences, for example a strong negative reaction to a previous stock recommendation, plays a role in shaping the conditions for future rating decisions by analysts.

7.4 OUTCOMES AND STRUCTURATION CYCLES

In this section the various aspects of the fieldwork are interwoven into a description of significant structuration cycles. Although the structure is framed around outcomes as the consequence of cycles of structuration, this should not be seen as suggesting any particular sequencing within the quadripartite framework. Outcomes would be recycled into the next structuration cycle and so the process is ongoing, continuous and incessant.

In the fieldwork, a broad range of relevant contextual and conduct-related matters can be reflected upon, understood and described in greater depth through a strong structuration lens. This section explores the seven critical structuration cycles which have resulted in structural transformation, reproduction or learning (Coad and Herbert, 2009). These cycles interweave the results of conduct, context and active agency analysis, together with outcomes, as illustrated in Figure 7.3 below. Only in the coalescence of all elements of the quadripartite framework, is it possible to understand the underpinning structuration processes at play.

FIGURE 7.3. STRUCTURATION CYCLES AND OUTCOMES



7.4.1 Structural reproduction: The scarcity of sell ratings

The dearth of sell ratings has been commented on within the academic literature (see for example, Womack 1996; Ryan and Taffler, 2006). Here, drawing upon the evidence obtained within this thesis, it is possible to obtain a deeper understanding of why this pattern of practices, or structure, persists.

The power position of companies form an external structure in the analyst field. It is very difficult for an analyst to have a successful career without supportive relations with the corporates they cover. Therefore, the analyst is typically beholden to the corporate to some degree. This imbalance undermines the power dynamic in the relationship. Fieldwork evidence was presented above (Section 5.4.1) on how companies seek to influence and control the narrative embedded in sell-side research by exploiting these imbalances of power. Specifically, companies seek to set the agenda of issues that analysts should address. This "agenda-control" could be perceived as an example of the second face of power (Lukes, 2005). If analysts do not conform, then they are vulnerable to sanction. Such sanction can range from the withdrawal of resources to aggressive threats or other forms of retaliation. The fieldwork evidence arising from this study confirms that the analyst participants consider that the process of putting a company on a sell rating would often invite these forms of sanction.

A further relevant external structure is the mix of clients with whom analysts interact. Most clients manage 'long-only' funds who cannot take advantage of short ideas.³⁵ Analysts view their success as measured by client feedback, in the form of client votes, so therefore, producing research that is not actionable is less likely to make an impact and to generate votes. Moreover, analysts may put a sell on a stock that a client has in their portfolio, which adds an extra layer of risk that a sell rating would not be greeted with enthusiasm by an important cluster of agents.

Analyst's internal structures add further complexity. Although difficult to speak of habitus in any universal way, there were some commonalities observed amongst the participants. These included an ambitious and competitive disposition, a high sensitivity to criticism and a recognition that, for many, being 'positive' was simply more consistent with their disposition (Section 6.3.2). Among the participants, conjuncturally-specific internal structures require an analyst to set a higher bar for sell ratings and therefore more detailed analysis is required in pre-empting the exacting reception a sell rating may face.

The outcome of these various aspects of internal and external structures is that analysts face material and important disincentives to issues sell ratings. Consequently, the observed infrequency of sell recommendations is perpetuated by that very infrequency through cycles of structuration.

However, even with such robust external structures, the dialectic of control concept means that resistance can be observed. For instance, if faced with the situation where a sell rating is clearly appropriate, analysts may deem that the risk of damage to their reputation is too high to hesitate issuing a sell recommendation. Additionally, agents with higher levels of confidence based on legacy acceptance and recognition by clients may circumvent the disincentives to sell ratings and issue them with few concerns about corporate and client negativity.

A final outcome of this set of structuration processes is the analyst drawing on their structures of signification to communicate meanings in their research such that issuing a formal sell rating may be unnecessary. For instance, analysts can use more nuanced ways to articulate negative views of a company within a research report without actually using explicit sell rating nomenclature. Recent research by Huang et al, (2014) and Cechini and Winchel (2017) embraces the examination of these 'textual signals' and interpreting them as useful information signals, as addressed in Chapter 2.

³⁵ Shorting entails agreeing to sell a share at a fixed price on the assumption that the shares will subsequently fall. If this fall happens then profit is earned as the higher sales price is locked in.

7.4.2 Structural reproduction: The Importance of the sales force cluster

The fieldwork evidence has provided support for the importance of the sales force as an external structure facing the analyst. This cluster, broadly ignored in the mainstream literature, constitutes an important day-to-day element of the lived experience of analysts. Close time-space proximity and the impact sales support can offer to analysts, are meaningful to this cluster's position. The sales force openly regard ratings as important (see Section 6.4.1) and their feedback forms an integral element of analysts' scorecards (Groysberg and Healy, 2013). The habitus of analysts identified feedback and positive affirmation from clients (internal and external) as a key measure of success. The sales force, therefore, delivers feedback in its own right but also provides the key to potential client votes. By bringing these strands together, the sales team represent a critical cluster.

Analysts will draw on their conjuncturally-specific internal structures of past successes and failures with or without support from the sales force. These structures will inform the analyst as to how to act to attract the support of the sales force where it is needed. The strand of habitus in the fieldwork evidence that identified the ambition and competitiveness inherent within analysts (Section 6.3.2) would further elevate the desire to gain the backing of the sales force for rating decisions.

It is not surprising that analysts act to garner favour with the sales force with regard to rating decisions and this act is, and continues to be, implicated in their practices.

7.4.3 Structural transformation: Regulatory tightening and internal structures

Within this thesis, increasingly stringent regulation has been identified as a substantial external structure that analysts must navigate. Chapter 5 included a discussion of why it was unlikely that analysts could offer anything other than token resistance (Section 5.5.2). Analysts cannot in any realistic way ignore regulation and continue to fulfil their commitments. There are serious repercussions, in the form of sanctions, for even relatively minor infractions. Consequently, this external structure takes on the character of an independent external structure in the terminology of strong structuration theory. Analyst agency will have no discernible impact on such regulation once it is enacted.

Instead, the relevant structuration cycle outcome remains in the realm of the internal structures of the analysts. The regulations envisage analysts as almost robotic in their ability to prosecute the requirements of the law. For instance, in the face of breaking news, analysts are expected to cling to their already published views steadfastly. One can imagine an analyst being subject to uncomfortable questioning by a client whilst trying to defend an out-of-date

research report. Fear of inadvertent regulatory breach has naturally entered into the disposition of analysts. Analysts are much more cautious and anxious about how they undertake their responsibilities and this has undermined the positional freedom they value so highly (Section 6.3.2). It has also altered the conjuncture-specific internal structures that analysts draw on as they go about their work. In addition, certain tasks, such as comments on newsflow, must now be undertaken differently in order to protect the analyst from regulatory breach.

7.4.4 Structural transformation or reproduction: Habitus and feedback

It is an unusual feature of the analysts' field that feedback from clients is often very specific to individuals and, additionally, is distributed widely. Client feedback represents an important, arguably *the* most important, external structure with which an analyst must grapple. Furthermore, looking inwards into the analyst, this feedback system is embedded deeply in their habitus. Evidence of this was observed in the research in the elevated status that analysts give to feedback as a measure of success. External client feedback, in particular, plays a role as an interpretive scheme for understanding how the market and the analyst themselves view the success of the analyst's work. It is also part of the scorecard, and so is a potential determinant of promotion and compensation. In this way, the analysts' role becomes one of trying to target positive feedback from clients and others.

When interpreting an analyst's actions, the structuration cycles at play are the outcome of the external structure of client broker votes meeting the analyst's habitus. In this process, there is also the conjuncture-specific stocks of knowledge that analysts have accumulated about how to garner client votes. It is these internal structures that are likely to be transformed over time as client vote successes and failures inform practices. A particular conclusion as to whether this structuration cycle would be implicated in structural reproduction or transformation has been purposefully avoided. This direction would very much be time and context specific. For example, this reflective extract from an analyst identifies how their conflict-avoidance habitus has changed over time with experience. It is highly likely that this experience was at least partially informed by client feedback, such as the sales force and investing clients registering little interest in neutral or hold ratings. As this quote reveals, these have now been de-emphasised in the analyst's approach:

“Over time, having looked at my ratings, I would think I have probably moved from being guilty of neutrals and buys and avoiding the conflict to dealing more with the mixed conflict than cute cuddliness. I think that's experience and keeping it more interesting.”

(Analyst 9)

7.4.5 Structural reproduction: Calculative routines as legitimation structures

The fieldwork evidence has exposed recognition for the role of calculative routines. It is worth bearing in mind that, in the main, such routines are spreadsheet based. These are the chosen tool for modelling and valuing companies across the field. Through the lens of social theory, it is possible to appreciate that these technologies take on a greater significance than simplistic tools. Instead they become a structure of legitimation and signification. Sophisticated models are expected by those consuming research and so satisfy a norm at some level. They also facilitate communication about complex analytics.

Cycles of structuration are implicated in sustaining and transforming the level of modelling analysts do. In their field, analysts will be well aware, by drawing on their conjuncture-specific internal structures, that companies are likely to respect those analysts with more detailed modelling. Additionally, there would be a minimum level of modelling needed to support a rating decision. Failure to meet these expectations would become a particularly acute problem for analysts if issuing negative ratings on a company. Feedback from clients and companies on analysts' models would form an important part of the stock of knowledge analysts would bring to their work. Negative feedback on model inadequacy would likely alter the internal structures of analysts with regard to their approach. It can also become embedded in their habitus as this extract shows:

“So what’s changed is, again going back to the way I operate in terms of data, I’ve become more and more comprehensive. I take some pride that my team members tell me the models are too complicated. I’m like, ‘Yes!’”

(Analyst 7)

In Chapter 2, the literature found evidence of analysts employing more sophisticated and detailed forms of modelling (for example, Imam et al, 2013). This is argued to be consistent with clients changing their expectations of the level of modelling required. Finally, the association, based on experience, between use and detail of models and the ultimate success of stock calls would also be implicated in the level of work done. It is arguable, therefore, that structuration processes would continue to determine the ultimate decision about the nature and level of work required.

7.4.6 Structural learning: The capitulation point

An aspect explored at length in the interviews is what is referred to in this thesis as the capitulation point. By way of illustration, consider an analyst with a buy on a stock facing a falling share price. As noted before, the fieldwork evidence has suggested that for many participants the initial reaction might be to consider this a better buy opportunity (in other words

there is now more upside). Nonetheless, there will be some occasions when this unwelcome share price trend continues to a point where the analyst may have to concede that they may have made a bad call. At some point, the analyst may need to acquiesce to the market and this is the capitulation point.

External structures would be implicated, in particular expectations of clients and the sales force. The frequent 'time-space' encounters with the sales force would result in constant questioning of the analyst's position. Clients, who may have been influenced to act by the analysts' call, will also demand ongoing justification. There will also be the habitus of the analyst, their sense of pride and the conviction they might have. Conjuncturally-specific stocks of knowledge would inform the analyst about the norms of conduct in these situations. For instance, there is the idea that some analysts hide when faced with a stock rating going the wrong way. For example, this extract reflects on such a scenario:

"I think people, clients and your sales force really hate you to go quiet then. Does it impact how you act on others? Well, hopefully you've learned something. Maybe you'll look at oil prices sooner and act on them. It's things like that that may impact your other calls. Again, being more flexible and picking up signs earlier."

(Analyst 4)

At the centre point of this discussion, and the interpretation of analyst conduct, is a need for ontological security. Ontological security represents feelings of security. It is the confidence that most human beings need in their self-identity and the constancy of the social environment surrounding them (Giddens, 1990, p.92). The capitulation point finds the analyst in a difficult and stressful moment. In the fieldwork there was clear evidence that analysts referred to emotions such as shame, grief and anger when describing this situation. This shows the fundamentally emotional nature of the moment. When faced with this need for ontological security, agents will favour tried and tested coping mechanisms (Coad and Herbert, 2009). This will achieve two things. On balance, it is likely that analyst agency in a structuration cycle will reproduce the patterns of conduct that have become the unwritten rules, or structures, of how to behave in such a scenario. In fieldwork carried out for this study, many analysts and agents in context mentioned the importance of not going quiet and disappearing when ratings would begin to go wrong. Analysts go through a learning process as their internal structures, in the form of stock of knowledge, reflect a more profound understanding of the dynamics of such a situation.

7.4.7 Structural transformation: The constitution of trust in the analyst field

In examining the data, trust, in both personal and system form, was significant. Each agent in the field had a slightly different context when considering issues of trust. Analysts want clients

to trust them and so their internal structures of legitimation are important. Certain practices would be expected by clients to engender trust. For instance, comprehensive models, good contacts with corporates and a history of quality research are all likely to generate trust from clients and corporates. Companies also want to be trusted. It will be earned by corporate officials delivering on their messages to the market. Trust becomes an authoritative resource for companies (Sydow, 1998) as it allows them to have more impact with their communications. Analysts may well act as the channel for some of these messages. If corporates do not deliver, then the analyst would withdraw trust and so the precious resource would diminish. This places a limit on what companies will be willing to do to influence analysts.

It is through the cycles of structuration that structures of trust are changed. The history of the agents involved, the habitus of significant human agents and the specificities of the conjuncture would all be expected to be in a constant state of ebb and flow as trust relations are recalibrated in the face of contradicting social structures (Coad and Herbert, 2009).

7.5 CONCLUSION

This chapter has brought together the various strands of the research to produce detailed descriptions of analysts' practices, framed by the exploration of structures and agency through strong structuration theory. The epicentre of this is active agency. To flesh out the analysis, the stratification model from Giddens (1984) and the further thoughts of Stones (2005) were utilised. The analysis of confidence as a basis for action was added to provide an emotional element to the model.

Consistent with strong structuration theory, proving or disproving theory is not the intention. Instead, the study aims to facilitate a deeper understanding of analyst practices around rating decisions. Several critical cycles of structuration were explored, based on the observations from the field. These cycles address the overall research question in that they interweave agency and structures together to deepen our understanding of the practices of analysts. Some of these structuration cycles sustain a specific feature of the terrain facing analysts, others support transformation and learning. For instance, one of the most important features of the analyst field is the small number of sell recommendations. This investigation has revealed how embedded power relations, expectations of key agents in context together with the internal structures of analysts, all combine to produce a carefully negotiated outcome. Strong structuration theory, and in particular, the quadripartite framework, is highly effective in bringing the researcher beyond one dimensional, surface descriptions of the social processes in operation.

CHAPTER 8.
CONCLUSIONS AND CONTRIBUTIONS

8.1 INTRODUCTION

This chapter brings together the various threads of the thesis with the objective of distilling its overall contribution to academic understanding across four distinct areas: its empirical contribution in the domain of analyst rating decisions; its scholarly contribution in the employment of social theory within a banking context; its methodological contribution through the combined use of focus groups and interviews; and, finally, its contribution to practice through its work based orientation. The chapter concludes with sections on the limitations of the study, future research opportunities and a personal reflection on the researcher's doctorate journey over the last number of years.

8.2 EMPIRICAL CONTRIBUTION

Chapter 1 (Section 1.2) presented the inherent contradiction that persists in the work of sell-side analysts. On the one hand there are thousands of professionals employed in Europe across large investment banks and independent brokerage houses providing a range of services to clients, worth in excess of \$1.33bn.³⁶ On the other, there is evidence that these same clients do not rate their analysts' research (for example, Gordon, 2017) and furthermore, claim to largely ignore their investment recommendations (Brown et al, 2016). This incongruity has been examined in other published work (for example, Imam and Spence, 2016; Chen et al, 2018). The aim of this research study was to extend this knowledge by adopting a sociological focus on the stock recommendation decision. In so doing, privilege was given to the voices of the analysts themselves. This approach stands in contrast to the mainstream literature, in which analysts are generally silent, and are represented instead by numbers in a database. The study answers the call for further research on analysts through a social lens (for example, Chen et al, 2018, Imam and Spence, 2016, Taffler, Spence and Esraghi, 2017).

This study's contribution to empirical research can be presented in terms of ten major issues, which are addressed below.

8.2.1 The rating decision is a socio-economic endeavour

Central to this thesis, and demonstrable from the fieldwork investigation, is the social foundation of rating decisions. Clearly, this may appear as a self-fulfilling prophecy given the social perspective adopted in the research. However, the empirics substantiate its importance. For instance, analyst deliberations on ratings are impacted by, among other things, power structures across the field, resistance opportunities to these structures of power, the habitus

³⁶ 340 European brokers pay \$2.9bn of commissions and 46% (\$1.33bn) of this was used to pay for equity research services (Source: Greenwich Associates, 2017)

of key agents in the network and the scars of past rating decisions. A key assertion of this study is that the typical approach to analyst research in the mainstream literature, emphasising the stock price impact of their decisions, can only ever hope to reveal part of the picture. The reframing of the rating decision as a social activity helps bridge the paradox central to this study. For example, there was evidence that analysts use structures of signification to ensure they communicate meaning irrespective of the headline rating. Furthermore, analysts will resist attempts to influence their independence if they perceive it extends too far and might undermine their reputation. This helps explain why clients continue to pay for research – they accept some levels of bias as unavoidable, given the social context, but they are also aware that analysts will want to protect their reputation.

8.2.2 Rating decisions occur as part of a continuous flow

Ratings should not be seen as isolated decisions. Instead, consistent with active agency in structuration theory, they are decisions made as part of an incessant flow, an ongoing process. As one rating decision is completed, it leads the analyst to reconsider other ratings. Consequently, they are less amenable to discrete ‘rating by rating’ analysis which is the approach adopted in most of the literature. The validation interviews (see Appendix 5) revealed that in certain macro driven sectors, such as banking and oil and gas, this flow is especially dominant. However, in some small diversified sectors such as support services or diversified financials, there is the possibility of examining stock ratings in a more discrete manner.

8.2.3 Regulation as an independent causal external structure

It was evident early on in the fieldwork that regulation is a critical external structure. It has taken on more significance in recent years as investment banks, in particular, have adopted a low tolerance to regulatory infraction. Evidence in this thesis illustrates how this macro level regulation has permeated to the micro level practices of analysts.

8.2.4 Sales force as a critical agent in context emboldened by time-space

The extensive literature on analysts makes little or no reference to the sales force as a significant actor in the field. In contrast, this fieldwork identified this group to be of more importance in the day-to-day activities of analysts than investment banking, which features heavily in the literature. The origin of sales force influence lies in their time-space locale whereby both formal and informal interactions are more immediate and frequent than with any other agent cluster. They can also play a significant role in determining whether a research product is successful, through the intensity of their sales effort. Based on the evidence in this

study, the sales force views stock ratings as particularly critical and so this has a consequent impact on the analysts' ordering of concerns, elevating ratings to a higher priority level. One caveat on the importance of sales arose from the validation interviews. Where an analyst already has a very strong relationship with a client the sales force relationship is less important in relation to that specific client.

8.2.5 Power – resistance interplay with companies

The critical power nexus is between companies and the analysts who cover them. Analysts need access to companies, especially for information and road show support. This provides companies with dominion over a powerful resource and accordingly they use this to influence analysts. Notwithstanding such power structures, analysts can and do offer resistance. The extent of influence is therefore a result of complex negotiation and is time-context specific.

8.2.6 Diverse habitus and conflicting dispositions

In contrast to other groups of experts or professionals, there are no specific qualifications or educational specialisms required to be an analyst. The evidence has demonstrated that the paths to becoming an analyst vary widely. Moreover, most analysts arrive at a particular industry due to experience of previous work, a particular specialist educational attainment or simply because they were allocated this sector as a graduate. This variegation means making generalisations about analysts needs to be approached with care. Notwithstanding, the fieldwork did identify a habitus in the participants that reflected a serious and committed attitude to work, where perceived failures are felt deeply. Additionally, a yearning for positive feedback and a sensitivity to criticism, coupled with a competitive and ambitious worldview, was observed. The potential for internal conflict within an analyst is clear. An ambitious habitus might encourage risk-taking, which in itself may expose an analyst to poor performance and negative feedback. The choices made will be the result of careful negotiation between these conflicting perspectives.

8.2.7 Trust pervades the field

Trust, particularly personal trust, was widely cited by actors across the network. It works as a mechanism to help agents deal with uncertainty and calibrate where to place reliance. Trust is constituted through cycles of structuration but in complex and subtle ways.

8.2.8 Confidence forms a basis for action among analysts

The study extends the stratification framework of Giddens (1984) to include confidence as a basis for action. The origin of confidence is in acceptance and recognition in the field. Therefore, the focus turns to the experience of analysts' prior ratings successes or failures, as well as the recognition from clients, as a determinant of action.

8.2.9 Structuration processes aid understanding of the scarcity of sell ratings

The mainstream literature explains the low level of sell ratings using surface level notions of bias. In the analysis of this study a combination of power dynamics, structural clusters, resistance, habitus and conjuncturally-specific stocks of knowledge are all implicated in the scarcity of sell ratings. The resistance of analysts to undue influence was also examined, with the conclusion being that analysts act to protect their reputation, even if it may cause difficulties with corporates in particular. The validation interviews concurred fully with this, emphasising that sell ratings feel much more aggressive and have lower overall client interest.

8.2.10 Structuration processes aid understanding of the capitulation point

An underexplored aspect of rating decisions is what can be described as the point of capitulation. In other words when a rating is going against an analyst, what processes determine the moment when the analyst will concede defeat and revisit the rating. These deliberations are profoundly social in nature and often involve a search for ontological security. The analyst's confidence levels, habitus and context relevant external structures will all be implicated in the decision. Based on the fieldwork, the capitulation point is beyond a mere rational economic calculation.

8.3 THEORETICAL CONTRIBUTION

The study entailed the application of strong structuration theory in an empirical field study.

8.3.1 Application of strong structuration theory in a complex scenario

The author is only aware of one other unpublished doctorate thesis (Neville, 2014) that has applied strong structuration theory to analysts. However, that thesis addressed a mixed group of analysts across various areas including credit, equity sell-side, buy-side and treasury, with a focus on the common routines across these actors. This research project concentrates on a particular segment of the analyst field, equity sell-side analysts, and a specific conjuncture in the rating decision.

There has been a call to apply strong structuration theory to more complex, layered settings with a “greater number of organisational actors” (Feeney and Pierce, 2016. p.1173) and this research fits with such a call. Investment banks, where most analysts work, represent a high profile and sophisticated environment. There is also great political interest in their activities and stringent regulation governing their practices. Such a rich environment penetrates down to the practices of the professional staff, such as analysts, and so it provides a rich source for theory that embraces both structural and agential aspects.

Responding to another call in Feeney and Pierce (2016), the study also contributes to our understanding of the autonomy of external structures and the importance of resistance to understanding how such structures diffuse through to practices. An example of an independent external structure in this study is the regulation-facing analysts. It is important to understand that resistance is not abstract but is context specific. For instance, in some abstract way, agents could resist regulation but the repercussions would be so severe as to make it impossible for them to continue fulfilling their obligations. It is this latter qualification to resistance, to when analysts can push back, which allows the researcher to develop a more nuanced appreciation of resistance. In other words, realistic resistance opportunities, available to flesh and blood agents, are of more importance to understanding structuration cycles and outcomes than abstract opportunities to resist which would almost never be pursued. In this it fully supports Stones (2005) decision to introduce a form of external structure that cannot be resisted and places constraint on agency.

8.3.2 Extension of interviews to agents in context

In the application of strong structuration theory, the encouragement to extend interviews beyond the agent in focus to include agents in context where possible (Harris et al, 2016) was embraced by this study. Richer evidence resulted directly from such an approach. For instance, in the analysis of the power relations between companies and analysts, it was especially helpful to be directly told by senior corporate officers that companies actively seek to influence and control analysts. In the absence of this direct evidence there would have been a need to use the analysts’ opinion of the motivation of corporates. This indirect evidence is much weaker and so the inclusion of these agents in context aided the construction of a more compelling narrative.

8.3.3 Integrating ‘confidence’ into the stratification model

The analysis of active agency used a fusion of concepts from Stones (2005) and Giddens’ stratification model (1984). This was then extended to explore the role of confidence as an emotion that provides a basis for action, based on the work of Barbalet (2001). There is an

embedded circularity here. Confidence emerges from recognition and acceptance. In turn, recognition and acceptance are the key motivators and how analysts judge their success. Therefore, central to an analyst's ability to perform, is social recognition and acceptance.

8.4 METHODOLOGICAL CONTRIBUTION

In addition to documentary analysis, the design of the research study employed two key primary methods of data collection; focus groups and interviews. The combination of these is explored below, in addition to the other method related contributions.

8.4.1 Combining focus groups and semi-structured interviews

Interviews are the most widely used data collection technique in qualitative research studies (King and Horrocks, 2010). As addressed elsewhere in this thesis, gaining access to sell-side analysts is especially difficult and there have been few studies adopting interviews. At an early stage the decision was made to combine focus groups and interviews as the major data collection techniques. The rationale for this approach was that focus groups could be used to garner evidence about broad issues in the analyst field, and then interviews would adopt a finer grained, more personal perspective. For illustration, focus groups were employed to discuss such issues as the main aspects of the analyst role and the identification of key agents in context. In the interviews, this evidence was explored further in terms of relevant personal experiences. This more hermeneutically sensitive approach would not have been appropriate in a focus group structure. The approach enabled multi-layered evidence to be collected from, on the one hand, the broad consensus about the analyst field to, on the other, much deeper personal experiences of successes and failures. This is one of a small number of studies to adopt this combination.

8.4.2 Post research impact interviews

As the thesis was approaching finalisation, a number of interviews with senior analysts were arranged to ascertain their views on the key findings. This is an established technique in the methodological literature particularly for qualitative studies. This work provided confidence that the findings were well informed as well as some additional contributions directly from those in the field.

8.4.3 Employing a circular design to enhance theoretical impact

This study was designed with strong structuration theory directly embedded from the beginning. Key concepts from strong structuration theory were reflected in focus group and

interview protocols making the most from limited time with analysts to produce the highest quality evidence possible. Most of these concepts were broad enough that there was little risk of undesirable theoretical constraint. Consistent with Makrygiannakis and Jack (2018), the depth of the data that could be collected with this approach was such that researchers should be encouraged to consider it for other structuration based studies.

8.5 PRACTICAL CONTRIBUTION

As part of the evidence validation process, the practical importance and implication of the findings were discussed at length with senior analysts. This has been reflected in the practical recommendations and contributions below.

8.5.1 Assist managers of research departments

Heads of research in departments across the world have a challenging job managing such a diverse and complex group. There are four areas of management where this study makes a contribution.

8.5.1.1 Provide managers with a deeper insight into analysts' decision making

The findings from the thesis suggest that managers of research departments need to appreciate the social processes in operation as analysts make rating decisions. It is likely that in most research departments analysts' rating decisions are viewed through a purely economic 'rational' lens. Managers need to understand and discuss with analysts the other influences, deliberations and thought processes to achieve a complete conceptualisation of rating decisions.

For instance, an appreciation of the structuration cycles that result in a dearth of sell ratings would facilitate more effective management intervention. It is clear from this fieldwork that there are nuanced social processes at play. This should dissuade managers, for example, from setting simplistic 'targets' for sell ratings as these are unlikely to work.

8.5.1.2 Anticipate areas of risk and vulnerability

The fieldwork evidence identified the susceptibility of analysts to influence from companies. This is likely to be heightened for those analysts who are less experienced or without a long record of success. Managers need to be ready to protect and support analysts. The development of simple indicators (for example, no sell recommendations) to alert managers, an extension of mentoring programmes for analysts deemed vulnerable, and training in resistance would be simple and effective processes to introduce.

8.5.1.3 Personal support for analysts

In this study analysts openly discussed how they felt and revealed vulnerabilities that they might not disclose in other situations. For instance, when discussing ratings that had gone poorly, they referred to emotions such as shame, grief and anger. Analysts occupy a uniquely vulnerable position given they measure their success by feedback, especially broker votes, and this feedback is often widely and publicly disseminated. Support systems are needed to allow analysts to reflect on these feelings independent of conversations with management. Also annual reviews could be designed to embed discussions around these issues.

8.5.1.4 Design more effective training and development initiatives

Supplementary training or development initiatives directly related to the findings including:

- Resisting influence: Analysts need to learn techniques to cope with undue influence from companies and how to resist in ways consistent with their habitus;
- Dealing with underperforming ratings: Analysts expressed strong feelings when ratings went poorly. Sharing these feelings and discussing the capitulation point in open forums would greatly aid analysts, especially those at the start of their careers;
- Regulation: Analysts are likely to have received training on the regulations and rules they are obliged to follow. However, what is needed is discussion forums and advice about how they can negotiate the various rules in their day-to-day interactions and practices.

8.5.2 Assist policy makers – regulators

The unique and high profile activities of analysts in a range of market processes (for instance, price discovery of listed stocks, IPOs and rights issues) have long been of interest to regulators and other policymakers. The deeper understanding of stock rating decisions from this study has direct policy relevance for regulators.

8.5.2.1 Regulators see the impact of regulation on practices

The fieldwork evidence has illustrated the dramatic impact that regulation and its implementation can have on the day-to-day practices of analysts. Undoubtedly, some of this is an intentional and appropriate response to the abuses by a small number of mainly US-based senior analysts some years ago. However, certain aspects of the regulations are unrealistic in the expectations placed on analysts. In particular it is valuable to highlight the reality of ‘fair distribution’ in the face of breaking news. Analysts may be in a meeting with an

aggressive client trying to defend a research report which is clearly out of date as a result of news flow. The result is anxiety and fear amongst analysts that they will inadvertently commit a regulatory breach. This might be something as simple as looking uncomfortable in the face of client questioning which could convey the message that the analyst is planning to change their view. Policy makers need to provide further guidance to analysts about what reasonable conduct should look like in these types of circumstance.

8.5.2.2 Aid regulators to anticipate areas of required regulatory development

Based on fieldwork evidence, the most obvious area that requires regulatory development is the influencing tactics employed by some companies. The sanctions that companies impose on analysts who do not conform to the corporate's expectations and norms warrant particular attention. Eliminating the private exchange of information between analysts and companies through 'Regulation Fair Disclosure' was an important step. The fieldwork evidence suggests that the more pressing issue is how corporates seek to control the agenda to minimise the risk of negative content and sell ratings. In addition, regulators need to address the sanctions companies impose on those analysts that do not conform.

8.5.3 Assist analysts in understanding the nature of their role

As committed professionals, many analysts will be interested to reflect on the nature of their role and the obligations and privileges therein.

8.5.3.1 Assist analysts in seeing different perspectives on their role

A number of metaphors for the analyst role emerged from the fieldwork evidence. The barrister metaphor is a uniquely interesting interpretation of analyst work, particularly, the idea that an important role is fulfilled simply by presenting a well-argued case for a rating, irrespective of whether it turns out to be 'right'. The discussion regarding how different agents in focus and context consider their main obligations and privileges would be of interest to professional analysts. This would help analysts to question and reflect on their own approach to the role and the parts they choose to emphasise. In so doing, they could consider alternative aspects of the role that might currently be somewhat neglected.

8.5.3.2 Assist analysts in understanding their ratings and the capitulation point

A structuration framework would be a highly effective way to explain to analysts many of the complex processes at play as they deliberate whether to persist with their current rating or to change it. One proposal is the development of heuristics such as a 'rating checklist'. This

thesis proposes that in addition to covering mechanistic calculative matters, it should also include more reflective questions to highlight, for example, areas of undue influence. These could help analysts manage and cope with the difficult period when ratings appear to go against their judgement and also promote practices that enhance the credibility of the rating process.

8.5.4 Assist investors who use analyst research

The evidence from this study would be of key interest to those investors on the buy-side who consume stock recommendations and other research from the sell-side. In particular, the impact of regulation on the output of analysts would help these users understand the timing of key reports and the somewhat restricted content they are exposed to. When assessing the quality of an analyst's stock calls the empirics in this study would suggest exploring the overall 'flow' of recommendations rather than single rating changes alone. The finding that companies continue to attempt to influence analysts is unlikely to surprise the buy-side, but the extent of ongoing sanctions and punishment from companies would help them to understand the pressures analysts remain under.

8.6 LIMITATIONS

Interpretive studies make extensive use of qualitative methods given the benefits they bring to investigating the lived experience of actors. Like any method, they do bring certain limitations.

Firstly, there is limited transferability of the findings. The analysts involved were drawn from a broad range of investment banks but were not selected in a statistical, randomised manner. Therefore, although one might conclude that they are a 'typical' group, given the small sample size, it would be inappropriate to make broad generalisations, and so there has been no attempt to do so.

Secondly, consistent with many qualitative designs, the research is heavily reliant on interviews and focus groups. Much consideration and care was taken to minimise any unwelcome bias, but the nature of these methods is such that this risk can never be eliminated. In particular, there is always the possibility that the analysts were telling the researcher what they felt they wanted to hear. The seniority of the analysts should have reduced this issue, but it cannot be denied as a risk.

Thirdly, strong structuration theory was utilised throughout the research. The nature of specific theory is that it privileges certain concepts. Strong structuration theory emphasises concepts

such as the duality of structure, context and conduct analysis, position-practices and the agent in focus as “the unit of analysis” (Jack, 2017b, p. 228). Examining the empirical evidence through these concepts sensitised the researcher to pursue a particular analytical path. If the study had employed an alternative theoretical lens then different issues may have been uncovered.

Lastly, the researcher, as a former head of research, is an important facet of the study. This brought with it major advantages in terms of access and detailed knowledge, but also challenges to ensure no particular views were privileged.

8.7 FUTURE RESEARCH

Future research could adopt a similar socially infused approach to this study. Alternatively, some of the findings in this thesis could be brought into the mainstream literature. Each is considered in turn below.

8.7.1 Further research within a social paradigm

There are various aspects of the social processes revealed in this study that could be subject to more specific analysis. This thesis focuses on the rating decisions of equity analysts on the basis that it is a critical decision central to the role. But other decisions or aspects of work could also be explored in a similar, socially sensitive, manner. For instance, future research could undertake detailed exploration of earnings forecasting, initiations of coverage or new listing (IPO) investor education research. Additionally, there are likely to be very compelling possibilities in taking a qualitative approach to interactions with specific agents in context. This strand of research could examine client communications in all its various forms, interactions with companies including corporate road shows, results announcements and conferences. It could also look further at the hitherto unexplored terrain of the sales-analyst relationship.

8.7.2 Further research within mainstream literature

Even though this thesis is critical of the narrow approach adopted in the mainstream literature, quantitative techniques have contributed to the body of knowledge on analyst work and such approaches could be used to leverage the findings of this research. For instance, there could be a shift to analysing the stock ratings of analysts as a continuous flow rather than as discrete decisions. This would bring the research closer to how analysts in this study ‘live’ rating decisions. In practice this would entail exploring a number of ratings decisions across a number of different stocks. One approach would be to group stocks into clusters of peers and examine the stock returns generated. Another strand of research could be to reflect the ‘scars’

of past experiences on analysts' future ratings. If an analyst has been scared by a call on a particular company, could this help explain future stock calls? Extending this theme of how an analyst's history of stock rating experiences is embedded in their habitus, research could delve into the capitulation point on ratings. A tendency to succumb to external pressures more or less quickly than other analysts may have interesting implications for success. Finally, in the face of so few sell ratings, analysts in the study drew on signification structures to articulate views, without necessarily changing a rating. The segment of research examining text signals (for example, Caylor et al, 2017) appears to be a fruitful avenue for further research.

8.8 PERSONAL REFLECTION

I now look back at my decision to study for this doctorate and cannot quite believe the meandering path I have followed. It has resulted in a complete career change, a rich and varied intellectual experience and an opportunity to think deeply about an area I had worked in for many years. There are three themes I wanted to interweave into this short reflection. Firstly, some comments on the nature of academic research as I have come to know it. Following this some thoughts on the personal gain from completing a doctorate and presenting my work and, finally, some remarks on my journey on the nature of subjectivity in research.

Completing a doctorate is, in essence, composed of thousands of steps, some quite significant and others taking almost no time. It is only in the accumulation that we begin to see the result. The keys to success are very much a combination of intellectual curiosity and perseverance. Hard work alone will not be enough and neither will intellectual curiosity. In undertaking such a large task, I have come to develop an appreciation for peer-reviewed academic research. In my previous role in equity research, we often reviewed academic studies. However, it was often very difficult to understand without an in-depth understanding of the technical terminology. Also it often employed data that was obsolete. However, having steeped myself in the process for a number of years, I have come to appreciate the profound thinking taking place as the research passes through phases of development and the required peer review. The benchmark for what constitutes sufficient evidence is also much higher than in markets based research, and markets based research could learn much from this.

Exposing my work at numerous conferences has also been a very rewarding experience. I found the atmosphere at these events to be supportive. Often the comments and questions are framed in a way both to convey support for ideas whilst also suggesting improvements. I have been lucky enough to expose my work at doctoral colloquia at Cranfield and Antwerp, at accounting conferences in Birmingham, Bristol and London, at internal academic faculty seminars at Aston and at specialist theory workshops in Dublin. It also formed an important part of job interviews at Roehampton University and the London School of Economics. I

received very useful feedback on almost all of these occasions and often had fruitful follow up debates in the corridor afterwards.

Originally, I intended my doctorate to employ a quantitative methodology and use an experiment to analyse the reaction of analysts to different accounting treatments. It was when I was introduced to structuration theory and then strong structuration theory by my supervisors that the path to a different form of thesis became clearer. Exploring structuration theory has been a particularly challenging and interesting endeavour but I am very pleased I made the switch to a different type of thesis. The switch to a qualitative research design entailed a move away from the specialist financial education to which I had previously been exposed. In this process, I have come to understand and appreciate the opportunities unveiled by accepting the very subjectivity that I would have once shunned. To grapple with the complexity of real world problems needs an expansive approach which often means embracing uncertainty, emotion, irrationality and ultimately, subjectivity. That is indeed a worthwhile journey.

8.9 CONCLUSION

This thesis began with a description of the incongruity inherent in the demand for analyst services. The literature suggested that their outputs were often biased, clients frequently ignored their stock recommendations and, if investors did implement their advice, trading costs would largely eliminate the benefits. And yet, client demand for analyst services persists. In considering this paradox, this study has focused on the social processes embedded in sell-side analysts' work, in particular, stock recommendations. These processes were explored through the lens of strong structuration theory, supported by an extension of data collection to relevant agents in context.

In conceptualising the rating decision as predominantly social, rather than as a mechanistic act of rational economics, the reasons why clients continue to demand analysts' services became clearer. Firstly, the social lens revealed analysts to be committed professionals embedded in extensive networks of position-practices with privileged access to valuable information. Analysts are sensitive to feedback and clients anticipate that this acts as a powerful incentive for them to produce high quality research. Secondly, analysts are heavily regulated and carefully consider issues of information dissemination and independence. Whilst this appears to have decreased the speed with which analysts can respond, it does reassure clients about the trustworthy nature of analyst work. Thirdly, although they are in an ongoing, and often delicate, power negotiation with corporates, clients know analysts will act to protect their reputation. This might involve utilising structures of signification to articulate views even where a specific rating, such as a sell, has not been utilised. Fourthly, clients are aware that the analyst is subject to rigorous critical review by the sales force, a powerful agent

cluster. Lastly, the analogy of the analyst as a barrister brings these points together. The expectation is that a credible case will be presented to a client in a stock recommendation. In a similar fashion to a barrister, the ultimate outcome cannot be guaranteed, however, clients see value in, and are willing to pay for, these credible stock recommendations.

This thesis makes contributions to knowledge across theory, empirics, methodology and practice. Listening and reflecting the voice of analysts as flesh and blood human agents, rather than numbers in a database, was the centrepiece of this work. This study seeks to do their views justice and, hopefully, their voices will be encountered more often in future research.

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APPENDICES

APPENDIX 1: LITERATURE SEARCH PROCESS

The major search targeted research on rating decisions by analysts over the last 20 years. In terms of process the following steps were followed:

- Four databases were accessed to maximise coverage; EBSCO, Scopus, Proquest, and Web of Science.
- Keywords were used to search the databases. For this search the following terms and structure were used:
 - “Sell-side analyst”
 - AND “Stock rating”
 - OR “Stock recommendation”
- The research was limited to peer reviewed academic journals. A separate search of news media was undertaken and is not considered here.
- The search was limited to the last 20 years starting in January 1998 to the present day and it produced 211 research articles.
- The articles were then filtered manually to ensure they were directly related to analyst recommendations. In addition, a large number of duplicates were removed. A second filter limited the results to those that appeared in 3 or 4 star journals. This filtering process left 79 articles which formed the corpus of literature on analyst rating decisions that was of direct relevance and high quality. These articles were reviewed and reflected in the literature review in this chapter as appropriate.
- The other articles in the original 211 batch were either discarded or, if highly relevant but in a lower ranked journal, were reviewed and reflected in the study. Finally, alerts were created to ensure more recent published relevant articles published came to the researcher’s attention.

It is also worth noting that highly cited pre-1998 papers on analyst rating decisions were included in this review to ensure seminal papers (for example, Womack, 1996) were not missed. In addition, the review of the literature from the search in itself lead to further papers of relevance that have been reflected in this review as appropriate.

The second part of the search focused on papers covering analysts which used social theories. The search terms covered “sell-side analysts” and “social theory” and the same databases were accessed. Given that this was a much smaller population no date limit was set and it produced a small number papers. Careful review of the citations within these papers produced some further literature but in total it remained a minor part of the overall literature review.

APPENDIX 2: REGULATIONS FACING ANALYSTS

TABLE A. 1. SUMMARY OF MAJOR REGULATIONS

Rule	Issuer	Year	Description
Global Settlement	N/A	2003	Wide range of matters including compensation paid by 10 sanctioned banks, restructuring of research departments, funding of 3 rd party research providers and controls about how analyst compensation is derived.
Regulation Fair Disclosure - (often referred to as 'REG FD')	SEC	1999	Regulation Fair Disclosure was designed to end the process whereby companies would reveal material non-public information in private discussions with analysts. Going forward such disclosures would have to be made in public.
Research Analysts and Research Reports (NASD 2711 & NYSE 472) - amended ³⁷	SEC/NYSE	2002	<p>Rule 2711 & NYSE 272 both address conflicts of interest. They were amended in 2002 as a response to the widespread concern about analyst independence. Key aspects of the amended rules included:</p> <ul style="list-style-type: none"> • Prohibition on linking analysts' compensation to investment banking transactions • Prohibition on promising favourable research/rating/price target to a company as an inducement for future business. • The distribution of buy/sell/hold recommendations must be disclosed on research reports.
Sarbanes Oxley 501	Legislation	2002	Broad requirements on analyst conflict of interest management and disclosure.
FINRA ³⁸ 2241	FINRA	2015	Replaced NASD 2711 and NASD 472. Largely the same rules with some modifications mainly relating to restrictions on who can (companies but fact checking only) and who cannot (e.g. investment banking) review draft research before publication.

³⁷ Both NASD 2711 and NYSE 472 were retired in 2015 and replaced by FINRA 2241

³⁸ Financial Industry Regulatory Authority (FINRA)

Rule	Issuer	Year	Description
Markets in Financial Instruments Directive I (MiFiD I)	EU	2007	Covered both organisational arrangements and a range of prohibitions. <ul style="list-style-type: none"> • Arrangements included effective supervision and control of analysts involved in investment banking transactions, appropriate compensation arrangements and reporting lines which avoided interference from those outside research • Prohibitions include analysts trading against their recommendations, gifts from those with an interest in recommendations and investment banking reviewing draft research.
Market Abuse Directive (MAD)	EU	2003 ³⁹	A wide range of matters including: <ul style="list-style-type: none"> • Preclusion of selective disclosure by companies (similar to Reg-FD) • Disclosure of the distribution of buys, sells and holds included in reports • Required disclosures about the analyst, the recommendation methodology and other financial information • Disclosure of relationship between issuer of the research and the company if any (for example, a holding of 5% or more)
Market Abuse Regulation (MAR)	EU	2016	This repealed the Market Abuse Directive and added new regulations which extended the scope in terms of markets and products covered and introduced more stringent procedures around a wide range of matters.
Markets in Financial Instruments Directive II (MiFiD II)	EU	2018	Change in the way analysts' services are paid for by investors. Requirement for more clarity between the provision of analyst reports and add-on services and the levels of fees flowing from investment management firms. Currently no equivalent US regulation.

³⁹ The actual implementation date in individual EU countries varied between 2004 and 2006.

APPENDIX 3: FOCUS GROUP - TOPIC GUIDE

Title of research: Sell-side analyst rating decisions - A Structuration analysis

Interview administration

Date:

Start Time:

End time:

Location:

Interviewer:

Interviewee ref:

Participant information sheet distributed: Y/N

Consent form signed and received? Y/N

Welcome and introduction:

- Thank you for your participation.
- Confidentiality of responses cannot be guaranteed as the discussion within the group will be open. However, please treat these conversations as confidential.
- I want to hear you speak, not me!
- There are no wrong or right answers
- Approximate length: 60 minutes
- Importance of hearing everyone's views and having an open discussion

Discussion prompts

1. PHASE 1: What are the most important roles an analyst fulfils?

- How important are stock recommendations in the analyst role?
- To what extent are analysts free to choose how they do their job?

2. PHASE 2: Who is in the network of those interested in an analyst's research?

- Who are the most powerful parties in this network?
- Who are the most important parties in this network?
- How stable is this network and how might it change in the future?

3. PHASE 3: Across the network discussed already, how diverse are the perspectives of the various parties in terms of 'what they want?'

- Who do analysts need to rely on to successfully fulfil their role?

4. PHASE 4: What are the major constraints and opportunities facing an analyst in the role?

- What are the key obligations and norms of conduct required by the analyst role?
- What are the privileges/rights of the analyst role?

5. Closure

- Any other comments you would like to make?
- Importance of confidentiality
- Thank you to the participants

APPENDIX 4: INTERVIEW PROTOCOLS

Interview phase 1: Internal structures – general dispositions & habitus

TABLE A. 2. INTERVIEW PROTOCOLS

Research related questions	Types of questions to be asked during the interview
<p>1. What general dispositions (skills, past experience, psychological traits) does the analyst possess?</p> <p>2. What does the analyst do? In other words how do they reflexively relate to, and draw upon, general dispositions when considering their actions?</p>	<p>Core: Can you tell me about your current role? Describe a typical working day. How would you think about the critical skills you possess that are important for success in this role? How have past experiences prepared you for this role? How does ‘who you are’ impact your work?</p> <p>Prompts: How important do you feel your qualifications are in your role? How does it compare with roles you have had in the past?</p>
<p>3. How does the analyst think about prioritisation and the ordering of their concerns?</p>	<p>Core: Explain what you feel are the most important parts of the role? How do you decide what work to prioritise?</p> <p>Prompts: What are the most important drivers behind how you do your job? What criteria would you use to make such choices?</p>

Interview phase 2: Internal structures – conjuncturally-specific

Original research question	Types of questions to be asked during the interview
<p>4. How does the analyst draw on conjuncturally specific knowledge in an unfolding sequence of action?</p>	<p>Core: How important are ratings decisions? I would like to you to consider a specific ratings change/decision of significance and to walk me through it. How do you feel about that decision now? Has your approach to ratings decisions changed over time? How? Why?</p> <p>Prompts: What are the stages in such a process?</p>
<p>5. What knowledge of social structures (norms, duties, physical and cognitive demands, rights, rewards/sanctions) do they draw upon when deciding how they might be expected to act? How do these constrain or influence the individual?</p>	<p>Core: When it comes to a ratings decision what do you think are the expectations of you, in your role as the coverage analyst?</p> <p>Prompts: How do these expectations impact your thought processes, in terms of constraints or influence, when making rating decisions? Describe what you feel the consequences would be if you did not meet these expectations?</p>

Interview phase 3: External structures and position-practices

Original research question	Types of questions to be asked during the interview
<p>6. What is the external structural context that forms the conditions for action?</p>	<p>Core: Where would you typically go for guidance, evidence and support in making or contemplating a ratings change? Describe any formal or informal rules relating to rating changes?</p> <p>Prompts: How do these impact your work? How do these impact on how you think about action?</p>
<p>7. Describe the network of key relationships that impinge on their work?</p> <p>8. Who are the other agents ('agents in context') that influence what they do?</p>	<p>Core: Talk me through who will be interested in your ratings decisions? In what way are they interested? How do you think about their relative importance/influence?</p> <p>Prompts: With whom do you have regular contact? What forms of power would you have over these individuals or vice-versa? How do you think about the reaction of others to your decisions on ratings?</p>
<p>9. In what ways do you think about the worldviews and conjuncturally-specific knowledge of these agents in context when you act?</p>	<p>Core: How well do you understand the perspectives and worldviews of the people you have regular contact with?</p> <p>Prompts: Specifically on a particular rating change, how do you think about their knowledge of that situation when you are acting?</p>

<p>10. How do they think about issues of trust when thinking about the network of agents that impact their decision making?</p>	<p>Core: How do you rely, if at all, on individuals in the network of individuals and organisations that are interested in your ratings decisions? Has that trust always been repaid?</p> <p>Prompts: Think of a specific decision where you relied on another person in your network and it was not an optimal outcome.</p>
<p>11. Do they consider herself empowered to change external structures or otherwise?</p>	<p>Core: How might the relationships and importance of the people in this network have changed and might change?</p> <p>Prompts: What has been the driver behind this change? What role have you played in this change?</p>
<p>12. What level of resistance can they reasonably expect to employ?</p>	<p>Core: Do you feel you can determine outcomes or are you typically beholden to others?</p> <p>Prompts: Consider a situation where you have resisted to act in a certain way – describe the pressure you were put under?</p>

Interview phase 4: Outcomes

Original research question	Types of questions to be asked during the interview
<p>13. What immediate impact do these actions have on the decisions they make as an analyst around ratings?</p>	<p>Core: Thinking about a difficult ratings decision that did not go well How did you react as it went poorly? How did it make you feel? How did you eventually capitulate?</p> <p>Prompts: Did you pre-empt the reaction of your network?</p>
<p>14. What are the immediate consequences of specific actions (intended and unintended)?</p>	<p>Core: Thinking shorter term, how do you think about the immediate possible consequences, whether intended or unintended, of a rating decision?</p> <p>Prompts: Describe an unintended consequence that really affected you?</p>
<p>15. What longer-term impact do these actions have on how social structures are reproduced or changed?</p>	<p>Core: How have ratings decisions and experiences impacted how you and others have gone about subsequent decisions?</p> <p>Prompts: Did you change more after successful or unsuccessful ratings changes?</p>

16. How do these consequences feedback on the position-practices in the network and wider external structures?

Core:

Would the view of those in the network of position-practice relations also change/ adapt to your different thinking?

Prompts:

Has the reaction of your network impacted your subsequent approach to ratings decisions?

APPENDIX 5: VALIDATION 'MEMBER-CHECKING' INTERVIEWS

Key extracts from the validation interviews have been tabulated below this short commentary. These extracts have been assembled from comments made in different parts of the interviews, as participant analysts spoke openly about the issues. Overall, the support for the major conclusions of the study was strong. However, some nuances did emerge which we expand on further below.

The rating decision is a socio-economic endeavour

There was robust support for this. The extracts chosen all refer to social, or at least non-mechanistic, aspects of the rating decision.

Rating decisions as a continuous flow

This finding from the study, challenged the idea that ratings should be understood on a rating-by-rating basis. There was clear evidence from the analysts to support this but two matters were highlighted. First, the characteristic of the sector is important in thinking about the extent of the 'flow'. For instance, certain sectors such as oils or banks, are driven by macro assumptions. In these cases, stock rating decisions could be termed, 'high flow rating sectors' whereby it is very difficult to think of ratings as being individually discrete. In other sectors, rating individuality is feasible to some degree. Secondly, the rating system used can also have an impact. A relative system explicitly directs analysts to rank stocks against each other and so ratings are clearly interlinked. Absolute systems do not have the same explicit requirement.

Regulation as an independent causal external structure

There was acceptance about the importance of regulation. The key focus was on the restrictions it has placed on particular practices. Internal communication is more restricted, analysts are slower and, as analyst V3 mentioned, an unintended consequence has been a flood of low-quality research.

Sales force as a critical agent in context emboldened by time-space

Substantial support here with one caveat that, if the analyst already has a good relationship with a client, then the sales force role is less important.

Power – resistance interplay with companies

The importance and potential influence of companies were clear in all comments.

Diverse habitus and conflicting dispositions

Habitus diversity was present in the comments made ranging from having a ‘thick skin’ to ‘neediness’ for positive affirmation. These are clearly in conflict. Comments made also support how different individuals approach the role in diverse and often novel ways.

Trust pervades the field

The comments here underpin the importance of trust in the analyst to sustain long-term relationships, to reinforce expertise and also to avoid wasting energy wondering if other agents are backing you.

Confidence forms a basis for action among analysts

One analyst referred to rigour in the process as being the source of confidence. Another spoke of the issue of recognition and that when a disappointing rating comes out, how it impacts his day.

Structuration processes and understanding the scarcity of sell ratings

The interesting feature of these comments is the contrast between buys and sells. Sells appear to have huge risks associated with them and a much poorer risk-return. From these comments, the importance of clients to the low level of sell ratings can be seen, rather than laying it at the door of corporate influence alone. Fewer clients are interested in sells, and they may also be upset if they own the stock.

Structuration processes aid in understanding the capitulation point

All the analysts accept that this is not a mechanistic decision but often involves other factors such as habitus and emotion.

TABLE A. 3. MEMBER CHECKING EXTRACTS

THESIS REF.	EMPIRICAL FINDING	ANALYST V1	ANALYST V2	ANALYST V3
8.2.1	The rating decision is a socio-economic endeavour	<i>'Analysts have a major role in their various interactions with portfolio managers. These interactions are more important than the recommendation itself'</i>	<i>'The system encourages rating inertia. If you like them and they like you, there is a risk that if you change your opinion that you will jeopardise that relationship.'</i>	<i>'I agree there is an emotional element and a context element. It's more about timing, unquantifiable things and your risk appetite.'</i>
8.2.2	Rating decisions occur as part of a continuous flow	<i>'Yes but it does depend on the sector. For example, certain sectors, like banks and oils, are very macro based and so rating decisions on one stock are always feeding into thinking on other stocks. In other sectors more discrete 'bottom-up' analysis is possible.'</i>	<i>'Fully agree with this. There is almost always a knock-on effect of one rating on another. Need to have a spread of buys and sells and minimise neutrals which are like saying I have no opinion.'</i>	<i>'100% true. Maybe the way ratings have changed over the last 10 years as ratings went relative...forced you to think like that. I always start with big themes and then rank who would benefit etc.'</i>
8.2.3	Regulation as an independent causal external structure	<i>'Regulation has dramatically slowed down our ability as analysts to react to breaking news.'</i> <i>'It has also made analysts far more wary and produced more bland research.'</i>	<i>'It has not changed much about my external communication, but it has dramatically altered how I interact with sales and trading internally. I used to happily speak to sales and trading about breaking news but no longer – I need to publish, and if it is something I do not feel is important I will probably just not bother.'</i>	<i>'I think one of the unintended consequences is a proliferation of low quality, almost factual ticking a box for compliance reasons. Do not say much and do not add value and the analyst then gets criticised for poor quality research.'</i>

8.2.4	Sales force as a critical agent in context emboldened by time-space	<i>'Tremendously important. It amplifies the message and the impact of stock prices of a rating change.'</i>	<i>'I feel they are very important if you do not have a good relationship with a client but if you do they are of little help.'</i>	<i>'In a world where there are a huge number of reports, they allow you to have a much bigger impact, and your recommendation reaches a much broader audience.'</i>
8.2.5	Power – resistance interplay with companies	<i>'Corporates still remain an important source of influence on ratings'</i>	<i>'I am very wary of companies, if not outright lying then it is bending the truth. My job is to act as a filter and balance out their overly positive take on things.'</i>	<i>'Companies are important. You have some power the companies will try to keep you in their good books. I think if you put a sell rating on there are ways to do it by not being insulting to the company. Often you can explain it based on different assumptions of the environment. Important that as long as I am transparent with my process, the company will be an adult, and not take it too personally if I had a negative rating.'</i>
8.2.6	Diverse habitus and conflicting dispositions	<i>'Analysts must have a thick skin given all the things you get called. I think people are very different in how they approach the role.'</i>	<i>'I am competitive, opinionated, logical and at the same time very needy for affirmation.'</i>	<i>'I recognise this conflict in myself. For me what was important was the confidence of being right in my logic even if it turned out to be wrong. Looking at other analysts, they would also struggle to accept defeat when they were wrong.'</i> <i>'We are so desperately in need for validation; we will take it wherever we get it.'</i>

8.2.7	Trust pervades the field	<i>'Trust is especially important given the ongoing interactions with clients over the longer term. In contrast to a banker wishing for a successful IPO, analysts need to sustain relationships over the long term, and therefore trust is hugely helpful in this.'</i>	<i>'I do not trust companies at all.'</i> <i>'Trust is hugely important as otherwise, you waste energy wondering if people are backing you.'</i>	<i>'It's huge. People trust my judgement, people trust my analysis, people trust my numbers. So if I say there is a hole in the balance sheet I have built a reputation based on my numbers and people will take it seriously. If I make a mistake that trust is gone.'</i>
8.2.8	Confidence forms a basis for action among analysts	No comment	<i>'If a broker review comes out and it is not what I hoped for it casts a shadow for the rest of the day.'</i>	<i>'I needed to have confidence in the thoroughness of my process and confidence that my case does not have holes.'</i>
8.2.9	Structuration processes aid in understanding the scarcity of sell ratings	<i>'Corporate influence, sub-conscious bias and the fact that more clients are interested in buy ratings all feed this scarcity.'</i> <i>'Investors may well be angry if you put a sell on a stock in their portfolio and will reflect it in their broker vote.'</i>	<i>'A sell rating is a hiding to nothing. People who hold the stock will despise you'</i> <i>'The universe of clients interested in a sell is simply much smaller.'</i>	<i>'Nobody will be too upset with you if you put a buy and the stock goes down. I also think that if you put a sell on and the stock goes up. I think you get more bullying internally as well. Being a buyer and wrong is less emotionally hard than being a seller and being wrong. A sell feels a much more aggressive call than a buy.'</i>
8.2.10	Structuration processes aid in understanding the capitulation point	<i>'All analysts have been here. There are most certainly social aspects to it. If you are the last (say) bear in the market the capitulation rating change can actually have real significance'</i>	<i>'Personally, I have been poor at capitulating on a call, and I think in general analysts are slow to fix mistakes. For me my personality and who I am is definitely implicated in this slow reaction.'</i>	<i>'I look for confidence in my process but eventually emotions and personality kick in and play a big role.'</i>

APPENDIX 6: SAMPLE FIELD NOTE FOR ANALYST INTERVIEW

Analyst Interview #3 [6th October, 2016]

Overall logistics:

- Meeting took place in a private bright room in the early morning in Canary Wharf, London.
- The participant & researcher arrived on time.
- There were no interruptions or disturbances. The participant was fully engaged at all times.
- Overall duration of interview: 45:12.
- The participant indicated he was completely comfortable for the interview to be recorded. Consent form was signed by the participant without hesitation.
- Two recording devices were used: Small specialist digital recorder and an iPhone with a recording app for back up.

Immediately interesting points that arose:

- This analyst indicated he felt total freedom to do the job and indeed he would not have done it differently at all even without pressures, constraints etc.
- Very senior, widely respected and opinionated.
- Clear on ratings not being important and yet when pushed gave many examples of their use and impact and did not support eliminating them.
- Clearly there is evidence of 'learning' and reproduction of practices.
- Very interesting comments on the public nature of client votes and the potential for humiliation when these do not go well.

APPENDIX 7: SAMPLE RESEARCH PLANNING/PROCESS NOTE

Topic: Extra interviews needed (March, 2017)

The interviews have proceeded based on the following schedule:

Activity	Number of participants	Dates
4 X Analyst focus Groups	4 x 4 = 16	July 2016
Analyst interviews	10	Oct-Nov 2016
Client interviews	5	Sept-Nov 2016
Corporate interviews	3 to date	Late Oct-Jun 2017
Sales interviews	6	Oct-Nov 2016

- The analyst interviews had not quite reached their saturation point and so a decision has been made to do 4 more interviews bringing the total to 14.
- For the other interviews there is no claim that saturation point could be reached in 5 interviews. The objective was context so there is no plan to extend these interviews further.

Addendum to note (July 2017):

- The 4 extra analyst interviews took place May-June 2017. At the end of these interviews no major new matters were arising in the data and so saturation point had been reached.
- In the analysis of the interviews one participant was particularly rambling and incoherent in places and so another interview took place with a very senior managing director on 8th June, 2017.
- The final interview took place on 13th June 2017 with analyst #14.

APPENDIX 8: OPEN-CODING CODEBOOK SAMPLE

Summary Sample of 44 open codes (out of 276 initial open codes)

Phase 2 – Initial codes developed (Alpha sorted list)	Code Definitions for Coding Consistency	References Coded
Access and volume of information	References to data access and the amount of data available in the analyst role.	25
Access to Clients	Reference to access to clients/investors in the analyst role.	10
Access to management	Reference to access to senior corporate management in the analyst role	20
Adapting to new ideas and learning	Reference to how analysts have changed their approach.	5
Amount and access to technology	Reference to the use of technology in the analyst role.	1
Anti-consensus	References to research/views outside of the consensus.	2
Approaching Ratings over time	Reference to how the analyst's approach to rating decisions has changed over time.	20
Avoid being caught out	Reference to the concern of being caught out ion doing analyst work.	1
Balance & source of influence: Depends on the situation	Reference that influence depends on the specific situation.	1
Balance & source of influence: Disruptive analysts	Reference to other disruptive analysts being a source of influence.	4
Balance & source of influence: Evidence based	Reference to data and evidence being the key source of influence.	1
Balance & source of influence: Independent versus bulge research setting	Reference to the different influences if the analyst works for an independent or bulge bracket house.	1
Balance & source of influence: Powerful analysts	Reference to other highly ranked analysts influencing.	1
Balance & source of influence: Pre-empting reactions	Reference to anticipation of the reaction of others as a means of influence.	1
Balance & source of influence: Clients	References to the influence of clients as part of the network in the analyst field	35
Balance & source of influence: Company - IRs & Mgmt	References to the influence of corporates/IR/management as part of the network in the analyst field.	70
Balance & source of influence: Sales	References to the influence of sales as part of the network in the analyst field.	57
Balance & source of influence: Small vs large house	Reference to the different influences if the analyst works for a large or small brokerage.	1
Balance & source of influence: Brokership stocks	Participants speak of the importance of brokerships for understanding influence	1
Balance & source of influence: Banking interested in research	References to the influence of banking as part of the network in the analyst field.	8
Becoming more sceptical	Reference to analysts becoming more sceptical over time.	1

Phase 2 – Initial codes developed (Alpha sorted list)	Code Definitions for Coding Consistency	References Coded
Best analysts have industry experience.	References to the importance of experience for analysts.	2
Buy side role per clients	References to the key aspects of the buy side analyst role.	4
Call out the untruthful companies	Participants discuss calling out untruthful communications from companies as a key part of the analyst role.	1
Corporate Governance analysis	References to the importance of corporate governance analysis for analysts, clients and companies.	18
Change or stability in analyst network over time	Participants comments on changes to the network over time.	13
Changes as to how companies communicate with market	References to how the range of communication channels used by companies has changed	1
Changes to IR role	References to how the IR role has changed over time	1
Changing role of interaction with analysts	References from agents in context about how analyst interactions have changed	3
Client demands - Big vs small house	References to how client interactions are different at big and small brokerages	2
Client demands - Clients more stretched	References to how clients have become more stretched over time	6
Client demands - Corporate Access	Reference to client demands for corporate access	1
Client demands - Difficult to get access to clients	Reference to clients being too busy to see analysts	4
Client demands - Fewer meetings	Reference to analysts having fewer client meetings	1
Client demands - Importance of Hedge funds	Reference to the importance of the hedge fund segment of clients	1
Client demands - Knowing how to add value	Reference to the analysts knowing how to add value	2
Client demands - Less is more	Reference to analysts needing to produce fewer, better reports	4
Client demands - More diversity	Reference to client demands becoming more diverse	6
Client demands - Client interest in Corporate Governance	References to clients' interest in corporate governance	22
Commercialisation	Participants comments about the need to be commercial as part of the analyst role	2
Company and IRs as a source of information	References to corporates/IRs being a valuable source of information	4
Competitive dimension	Reference to the competitive nature of the analyst role	10
Competitors	Reference to the importance of competitors in the network	18
Compliance - changes over time	Reference to how compliance has changed over time.	37