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Heroes and Victims: Fund Manager Sense-making, Self-legitimation and Storytelling

*Arman Eshraghi** *Richard Taffler*

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Abstract

Abundant research evidence demonstrates that past investment performance is not a robust indicator of future investment returns, and that it is very difficult for fund managers to outperform on any consistent basis. To be able to do their job, asset managers need to maintain belief in themselves and in their investment processes, even though, in practice, it is not possible for them to meet the unrealistic expectations placed on them. In this paper, we show fund managers do this by constructing satisfying narratives and, in particular, stories. We use two sets of fund manager narratives in our study. *First*, we analyse the transcripts of depth interviews with 50 equity fund managers in some of the world's largest investment houses. *Second*, we explore 50 fund manager commentaries on last year performance provided as a standard part of mutual fund annual reports to investors. In both cases, we show how storytelling is used by money managers as an integral part of their largely unconscious identity construction process, and to justify their added value to themselves as well as to their clients and employers. In this way, our two sets of narratives, one verbal and informal, the other written and formal, provide novel and complementary insights into how fund managers make sense of what they do.

Keywords: *Fund manager interviews, Investment performance, Story types, Narratology*

*Corresponding author. The authors can be contacted at the University of Edinburgh Business School, Edinburgh EH8 9JS, arman.eshraghi@ed.ac.uk, and Warwick Business School, Coventry CV4 7AL, richard.taffler@wbs.ac.uk. They are grateful for helpful comments provided by the participants at the Behavioural Finance Working Group Conference at Cass Business School (2011), internal research seminars in Cardiff University (2011) and Bristol University (2012), and the British Accounting and Finance Association Conference (2013). The views in the paper are solely the responsibility of the authors and all mistakes remain theirs.

Heroes and Victims: Fund Manager Sense-making, Self-legitimation and Storytelling

1. Introduction

There is little empirical evidence that fund managers are able systematically to outperform other managers or their respective benchmarks after costs (e.g., Carhart, 1997; Wermers, 2000; Busse, Goyal and Wahal, 2010; Fama and French, 2010), and particularly in more recent periods (e.g., Kosowski *et al.*, 2006; Barras, Sciallet and Wermers, 2010). In addition, very few funds (4-6%) manage to repeat top-half or top-quartile performance over time (Soe and Lou, 2012), and even what limited persistence there might be dissipates after a few months (Bollen and Busse, 2004). Also, if particular managers do have superior skill, it is very difficult to identify these *ex ante* (Jones and Wermers, 2011) and, more generally, distinguish skill from luck.

On the other hand, the existence and legitimacy of the fund management industry itself, and the *raison d'être* of its asset managers, are premised on the belief, and implicit promise to clients, that it *is* possible to "beat the market".[1] This is despite all participants being aware, consciously or unconsciously, that it is very difficult, if not impossible, to do this on a consistent basis. Fund managers, who are under constant threat if they underperform (Goyal and Wahal, 2008), suffer from cognitive dissonance (Festinger, 1957). On the one hand they "know" it is not possible to do what is required of them, but on another level cannot consciously acknowledge this to themselves or others.[2] In the operation of their ego-defences they have to split off and deny or repress what they do not want to know (Gabriel, 2008, pp.74-75; Brown, Stacey and Nandhakumar, 2008).[3] This inevitably leads to emotional conflict (Tuckett and Taffler, 2012, pp. 88-97).

In this paper we explore how fund managers develop the required sense of self-belief and meaning in their work to allow them to continue to do their job when outcomes are uncertain and there is ultimately little relationship between the investment decisions they make and the performance of their funds. Added to which they are more likely to underperform on average

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[1] For example, Jain and Wu (2000) show how mutual funds are sold to potential clients on the basis of their managers' previous track record and advertised as such even though, if anything, such funds subsequently underperform.

[2] This point is well illustrated by the *Dear Lucy* column in the *Financial Times* (March 20, 2008) in which a 34-year-old fund manager offered the following *cri de coeur*: *"I have been a fund manager for 10 years…. The job is great: flexible and well paid. My problem is that I genuinely don't believe it is possible to do this job – outperforming other fund managers and equity indices – with any consistency. I believe the industry is based on the lie that fund managers add value through skill, rather than luck. This makes it hard for me to keep motivated."* There were 79 responses on the associated *FT* blog, many not very sympathetic.

[3] This point is made very clearly by one of Barker, Hendry, Roberts and Sanderson's (2012) investment house heads of research interviewees when asked whether it is possible to outperform: *"I think I will plead the 5th [amendment] on that one! I think I know the answer but it could be the job I do adds no value whatsoever in the long run!"*

than outperform equity indices.[4] In this context, Kahneman (2011, pp. 212-217) refers to the illusion of skill and how it is imbedded in the whole culture of the investment management industry. How do professional investors manage to maintain feelings of self-esteem and self-legitimacy when they know, on one level, they can't all be "exceptional"?

We hypothesise that fund managers deal with their implicit search for meaning in an uncertain world by doing what we all do, by *telling stories*. As Brown, Stacey and Nandhakumar (2008) quoting MacIntyre (1981, p. 201) point out '*man is in his actions and practice, as well as his fictions, essentially a story-telling animal.*' He is both '*homo narrans*' and indeed '*homo fabulans – the tellers and interpreters of narrative.*' We then explore whether there are certain types or genres of story asset managers use to generate sense-making and seek self-legitimation both when they are successful and unsuccessful. We also test whether these story types are common across the stories they tell to themselves, and those narrated to their external constituencies.

To provide evidence for our core argument, we analyse two sets of fund manager narratives in our study: (1) transcripts of depth interviews with 50 fund managers in some of the world's largest investment houses, and (2) formal reports to their investors written by a different, randomly selected sample of 50 fund managers as a standard part of mutual fund annual reports. The main difference between the two sets of data is that while there was plenty of probing reflected in our semi-structured interviews, this was not possible with our formal reports with the process of sense-making being communicated here in a more subtle way.

To our knowledge, there has been little formal study of the fund manager task environment to date, and what there has been has tended to take a much broader and indirect sociological perspective (e.g., Smith, 1999; McKenzie, 2006; Cetina and Preda, 2012; Pixley, 2012). Most similar to our study is Barker, Hendry, Roberts and Sanderson (2012) and the same authors' earlier associated studies (Roberts, Sanderson, Barker and Hendry, 2006 and Hendry, Sanderson, Barker and Roberts, 2006). However, there are many parallels in what we find with Maclean, Harvey and Chia's (2012) study of the sense-making, storytelling and legitimation processes of elite business leaders. In their interview-based and observational study Barker, Hendry, Roberts and Sanderson (2012) explore why fund managers view company meetings as a prime information source even though no price-sensitive information is being conveyed, and provide three non-mutually exclusive potential explanations. Although our study has a different focus, consistent with their third agency-based legitimacy argument our research suggests that the value of such meetings may well reside in the opportunity they provide for *narrative sense-making*, *i.e.*, rationalising purposeful activity in the face of unpredictable trading outcomes. Talim (2012) provides some support for this idea in his ethnographic participant-observation study of the Istanbul Stock Exchange (ISE) which explores the use of sense-making narratives *in situ.* In particular, he shows how such narratives serve to reduce uncertainty and help explain the evaluative cultures of the ISE.

[4] For example, Standard & Poor's show that over the five years to the end of 2011, the S&P 500 outperformed 62% of actively managed large-cap mutual funds, and other relevant S&P indexes respectively outperformed 80% of mid-cap funds and 73% of small-cap funds (Standard & Poor's, 2011).

Tuckett and Taffler (2012) draw on the same interviews as those used in the first part of this study and describe the underlying unconscious dimensions of the fund manager task adopting a psychoanalytically-informed emotional finance perspective. In particular, they explore how asset managers are able to enter into relationships with, and invest in, stocks which are very likely to let them down, a process they term "achieving conviction". Despite being related to what we are doing in this paper, Tuckett and Taffler (2012) are not directly concerned with how asset managers make sense of and legitimate their activities to themselves and others, the research question we address here. The second part of our empirical analysis which analyses formal asset manager reports to investors complements that of Jameson (2000) who also studies mutual fund reports but in her case in an attempt to understand how business writers handle complex communication challenges. Her particular interest is in the process by which fund managers engage with users of their reports and how their readers experience the text and actively participate in constructing the investment story. In contrast, we are directly concerned with how fund managers write their reports not only to convince readers that their investments are being appropriately and prudently managed, but particularly to help them make sense of their task and both construct and maintain individual identities, *i.e.,* for self-legitimation purposes.

Whereas there has been some work looking at traders and retail investors in financial markets from a more behavioural perspective (e.g., Willman, Fenton-O'Creevy, Nicholson and Soame, 2002; Roscoe and Howorth, 2009), studies on how financial actors make sense of an environment in which they are expected to "perform", despite outcomes being largely outside their control, are limited. Specifically, in this paper we take both an internal perspective and also a presented external one in exploring fund manager narratives. Interestingly, we find through the process of *abduction* (Lukka and Modell, 2010; Weick, 2012) there are certain types or genres of story that fund managers commonly use to help them generate a sense of meaning in what they do. The two principal types of story they employ are those related in *epic* (*i.e.,* with the fund manager as 'hero' when things work out) and *tragic* (*i.e.,* with the fund manager as 'undeserving victim' when things go wrong) modes. However, *romantic* and *comic* stories are also used as well as hybrid types such as *tragi-comic* and *epic-comic*. These genres are common across both fund managers' own internal stories and those narrated to their external constituencies. In fact, it can be argued that asset managers are implicitly addressing the same sets of audience in both their confidential interviews and formal reports with recipients of their stories including themselves, both explicitly and implicitly, as well as their clients and employers. The particular taxonomy we apply to identify and categorise fund manager narratives into different story types and the results of this analysis are one of the main empirical contributions of our paper.

Importantly, telling stories can make the unpredictable future appear predictable, and by imposing meaning can help the fund manager feel able to control the unpredictable world he has to deal with, and cope with adversity.[5] Being able to tell a convincing story to himself and others about *why* things did not work out as expected ensures the fund manager can avoid acknowledging the underlying uncertainty with which he has to deal. This process is far more

[5] Gendron and Spira (2010) emphasise Giddens' (1990) argument that self-identity has the key ability "*to keep a particular narrative going – to integrate events meaningfully into one's biographical story about the self.*" Such individuals are, in Giddens' terms, "*ontologically secure*", having confidence "*in the continuity of their self-identity and the constancy of the surrounding social and material environments of action*" (p. 92).

subtle than what is generally described in terms of *impression management* (see for example, Goffman, 1974; Schlenker, 1980 and Brennan, 2012), which suggests an almost conscious attempt to manage the perceptions of the target audience. In this paper, we argue that telling stories, as in other realms of human activity, is the underlying way in which asset managers make sense of the world in which they operate. The storytelling process allows them to continue to do their jobs even when their funds underperform for an extended period of time. It equally serves to legitimate what they do both in their own eyes (self-legitimation) and in those of their investors and other third parties.

This paper is structured as follows. Section 2 provides a brief review of the literature on sense-making, legitimacy theory, narratives and stories. Section 3 describes the data used in the study, how it is collected and explores its validity. Section 4 relates and classifies the genres of story used by fund managers in their confidential interviews to maintain "belief" in, and legitimate what they do; and the following section brings parallel evidence of stories told by fund managers in their formal reports to investors. Finally, section 6 discusses our findings and concludes the paper.

2. Sense-making and self-legitimation: the role of storytelling

Storytelling is a versatile human activity that can be used to exert power, construct and defend identity, transfer knowledge, unfreeze boundaries, and engage in sense-making and sense-destroying (Brown, Gabriel and Gherardi, 2009). The thesis of this paper is that by telling stories both to themselves and to others, fund managers construct their self-identity and are able to make sense of the uncertain and opaque world in which they operate. Equally they are able to claim legitimacy for what they do.

Sense-making is an integral part of the fund manager's search for meaning. It is "*fundamentally tied to processes of individual identity generation and maintenance*" (Brown, Stacey and Nandhakumar, 2008).

> *"Sensemaking is a search for plausibility and coherence that is reasonable and memorable, which embodies past experience and expectations, and maintains the self while resonating with others. It can be constructed retrospectively, yet used prospectively, and captures thoughts and emotions….[It] render[s] the subjective as something more tangible."* (Weick, 1995, p.14)

Sense-making is the process by which we mould our own identity in an ambiguous world and "tell" ourselves who we are. It is grounded in our constant struggle to construct our own identities and seek legitimacy (Maclean, Harvey and Chia, 2012). Whittle and Mueller (2012) further define sense-making as *"the process through which people interpret themselves and the world around them through the production of meaning*" – the key here is the linking of meaning with both the person and the world around them.

Suchman (1995, p. 574) defines legitimacy as: *"…a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions."* Relatively little is known about the processes by which legitimacy is acquired, but the use of narrative is crucial at both organisational and individual levels (Maclean, Harvey and Chia, 2012). Story-telling and sense-making processes are intimately related to modes of self-legitimation. Most legitimacy research focuses on the nature of organisational legitimacy (e.g., Suchman, 1995: Tyler, 2006). However, here we are more concerned with how fund managers justify what they do. This is both to themselves as captured by the interview process, and to significant others such as their clients and employers in terms of their formal reports.[6] We suggest that the manner in which asset managers report on their performance to their investors is equally part of the process by which they seek to make sense of the impenetrable world in which they are located. This is as well as seeking to persuade their clients (and, importantly, themselves) that their funds are being well and competently managed.

In this paper we argue that the way fund managers construct the cognitive schema they need to be able to do their job in the face of continued threats and reverses is by constructing narratives. Narrative constitutes "*the basic organising principle of human cognition*" (Brown, Stacey and Nandhakumar, 2008) and "*the primary form by which human experience is made meaningful*" (Polkinghorne, 1988, p. 1). Although many authors use the terms narrative and story synonymously, in line e.g., with Gabriel (2000), Boje (2001), Czarniawska (2004) and Maclean, Harvey and Chia (2012) we treat "story" here as a sub-genre of narrative. Narratives, broadly defined, are texts, spoken or written, that usually involve a sequence of actions and events in a chronological and generally logically consistent manner. They "*involve temporal chains of interrelated events or actions, undertaken by characters*" (Gabriel, 2008, p. 194). Narrative truth is fundamentally different from factual truth but nonetheless *real* in that narratives allow us to make sense of situations. More broadly, in terms of the accepted rather than contested nature of financial markets, market participants also make sense of the environment in which they collectively operate through "*jointly negotiated*" narratives. Narratives carry the market's "*common-sensical stock of knowledge*" (Brown, Stacey and Nandhakumar, 2008).

In our process of abductive reasoning (Lukka and Modell, 2010), we draw directly on the empirically-derived understanding of the nature and characteristics of different story genres of Gabriel (2000) which is based on 130 interviews and more than 400 distinct narratives. The study of the nature of story dates back to the Ancient Greeks. Genre studies in narratology has an extensive literature and a wide range of story taxonomies exist. A typical example is Booker's (2004) *The Seven Basic Plots* which classifies stories in literature through to modern times as belonging to one of more of the following types: "overcoming the monster", "rags to riches", "the quest", "voyage and return", "comedy", "tragedy" and "rebirth". In an attempt to help provide authenticity and plausibility to our research, in this study we follow the

[6] In this context, as Maclean, Harvey and Chia (2012) point out, the listener, *i.e.,* the interviewer whose approval the interviewee seeks to enhance self-esteem, also has a direct role to play in legitimation dynamics as the necessary *"fellow traveller"* or "*Other*" required for sense-making. Also see Brown, Stacey and Nandhakumar (2008).

empirically-based typology of organisational stories of Gabriel (2000, pp. 59-86). This taxonomy has the closest ecological validity to the types of stories related by our fund managers both in their interviews and formal reports to investors. Gabriel (2000, p. 59) points out that inevitably all such typologies are imperfect. However, adopting such an analytical framework helps to establish important similarities and differences in the characteristics of stories told and leads to a far deeper understanding of the underlying sense-making process being attempted.

Gabriel (2000, p.239) defines stories as:

> *"…narratives with plots and characters, generating emotion in narrator and audience through a poetic elaboration of symbolic material... Story plots entail conflicts, predicaments, trials, coincidences and crises that call for choices, decisions, actions and interactions, whose actual outcomes are often at odds with the characters' intentions and purposes."*

The plot functions to transform a chronicle or sequence of events into a story knitting together the events so that we can recognise a deeper significance of an event in the light of other events (Gabriel, 2008, p. 195). Stories are powerful devices for managing meaning and thus, potentially, an essential part of the storyteller's sense-making process. Through the medium of story, the unexpected can be transformed into the 'expectable', and the storyteller can feel, on one level, the unmanageable future is 'manageable' or 'controllable'. Interestingly "*…the truth of a story lies not in* the facts*, but in the* meaning*. If people believe a story, if the story grips them, whether events actually happened or not is irrelevant*" (Gabriel, 2000, p.4). The key is its *plausibility* rather than its *accuracy*. Importantly, in stories *unpredictability* does not imply *inexplicability*. *Narrative rationality*, or sense-making, arises from people's "*inherent awareness of narrative probability, what constitutes a coherent story… and narrative fidelity, whether or not the stories they experience ring true…"* (Fisher, 1987, p. 64). There is no requirement for them actually to *be* true! "*Accuracy is nice but not necessary in sense-making…what is necessary in sense-making is a good story*." (Weick, 1995, p. 131)

Gabriel (2000, pp. 35-42) describes how meaning is generated in stories, *inter alia*, distinguishing between such rhetorical devices as metaphor, metonymy, synecdoche and irony and what he terms *poetic implements* (or tropes).[7] Gabriel sees such poetic tropes as the "*storyteller's central interpretive devices",* as without them "*no amount of symbolic, rhetorical, or narrative elaboration can be effective"* (Gabriel, 2000, p. 36). Gabriel identifies eight such tropes which represent ways of making sense of specific parts of the narrative or making connections between different parts. These types of attribution are namely, attributions of motive, causal connections, responsibility, unity, fixed qualities, emotion, agency, and finally, attribution of providential significance, and are largely self-explanatory. As we will see in the next section, different genres of story employ different sets of poetic tropes.

[7] The term 'poetics' originates from the Greek *poiesis* meaning "to make" as in the sense in our storytelling context of creating something new from existing materials (Gabriel, 2000, p. 10).

We hypothesise in this paper that through the use of stories and the broader narratives of group sense-making, fund managers are able to engage in a process of identity construction.[8] Identity matters because it plays a key role in sense-making and tells us who we are and how we relate to others and the world (Gendron and Spira, 2010). An essential part of how asset managers build their own desired self-image, and confirm their belief in the rationale of their investment process and thus personal legitimacy is conditioned on prior investment outcomes. If investment performance is perceived as favourable *i.e.,* the fund has outperformed its benchmark or competing funds, the manager takes credit for his investment strategies and (consciously or unconsciously) seeks to portray himself as the hero of an epic-like investment story. However, if things go wrong, the manager typically attempts to explain why the strategy is still right but external factors wrong-footed the underlying investment process, and in doing so he depicts himself often as the unfair or undeserving victim of a tragic investment story.

3. Data and method

We draw on two distinct sets of narratives in this study: transcripts of depth interviews with 50 equity fund managers (39 conventional stock pickers and 11 quantitative investment managers), and 50 randomly selected fund manager reports filed with the SEC. The research interviews were conducted with senior fund managers in Boston, Edinburgh, London, Paris, New York and Singapore and took place in the first 8 months of 2007. Full details of the interview process and nature of respondents are provided in Tuckett and Taffler (2012, pp. 9-15). Most of the respondents managed over $1bn of assets with mean fund size of almost $10bn. On average they had 15 years of portfolio management experience and controlled a wide range of funds investing across most developed and developing markets. Given the way in which respondents were selected and their tenure in their jobs two-thirds had outperformed their benchmarks over the previous three years and, as such, interviews may have been biased towards more successful managers. However, as we will show, the key role storytelling plays in the fund manager sense-making and self-legitimation process appears independent of actual fund performance, although the *types* of stories told will differ.

Interviews were 70 minutes long on average, and all conducted by the same highly experienced research interviewer. Each interview was tape-recorded and carefully transcribed to produce narratives capable of systematic qualitative analysis. The format used in the interviews was the standardised non-schedule interview (SNSI) developed by social epidemiologists specifically to deal with the social meaning problem (e.g., Richardson, Dohrenwend and Klein, 1965), a variant of the conventional qualitative interview (Gaskell, 2000). In an SNSI, respondents talk freely and explore how they understand the questions with the interviewer, who essentially plays the role of a "sounding board", responding and probing to get underneath the assumptions

[8] Fund managers are also tied together within the general organisational narratives of the market and their investment houses which Tuckett and Taffler (2012, p. 52) drawing on Lyotard (1979) term their 'meta-narratives'. Lyotard argues that such *grands recits* are used to legitimate power, authority and social customs and are designed, on one level, to help people feel better that there is some order in the world. The post-modernist movement, which emphasises the relativity of all activity, has tended to shatter such underlying beliefs.

respondents make about what the interviewer means or wants to know, and deliberate or non-deliberate attempts to mislead. Tuckett and Taffler (2012, pp. 20-22) discuss validity issues in detail. Although the interviews explored a wide range of issues, an important part of each interview was concerned with specific investment decisions made in the previous 12 months where respondents were most satisfied or dissatisfied, and why they worked out or did not work out. Analysis of the these parts of the interview data provides the focus of the next section of this paper.[9]

Our second set of narratives is drawn from the annual reports of mutual fund managers to their investors on their funds' performance and is randomly sampled from public filings in the SEC Edgar database. We were not able to use formal reports to investors written by our interviewed fund managers for confidentiality reasons, as this would disclose the identity of our interviewees. We select a 2% random sample from the approximately 2,500 mutual fund annual reports filed relating to fund performance in 2007 for formal narrative analysis to match our sample of interviews in number and time period. Although these funds are all registered in the US, only about half of them invest primarily in stocks listed on the main US exchanges with the remainder investing globally or in European, Asian or developing markets etc., a similar spread of fund types as with our interview respondents.

Mutual fund annual reports filed with the SEC typically consists of several parts. However, since the focus of our paper is on fund manager sense-making and self-legitimation, and individual managers are responsible for their fund's investment decisions, the sections in which they report on their funds' prior year performance are the relevant narratives for purposes of analysis.

Not all formal fund manager reports contain stories, however. Some are purely factual and mostly concerned with reporting sector and stock performance. Such narratives that provide descriptive accounts of events and emphasise "*factual accuracy rather than narrative effect*" (Gabriel, 2000, p. 146) are better classified as "reports" or "descriptions". We also find many examples of *proto-stories* which contain "*the seed of a story without achieving the poetic imagination and narrative complexity that would make them proper stories*" i.e., terse narratives with very thin plot (Gabriel, 2000, p. 60). This may not be surprising given the fact that mutual funds have to file these official and formal disclosure documents with the regulators. In this paper, we distinguish between descriptions that deal with *facts-as-information*, and stories that deal with *facts-as-experience* for both the narrators and the audience. While in the former, the chronicler is committed to *accuracy*; in the latter, the storyteller is committed to *effect* (Jameson, 2000).

The issue of the authorship of fund manager commentaries in mutual fund annual reports is important for the purposes of our study. The normal practice in the asset management industry is that fund managers write their own reports. These may then be edited by in-house writers to check correct use of language and ensure presentational consistency with other sections of the annual report. In other words, in-house editors are less concerned with the core themes,

[9] The interview schedule is available at www.palgrave.com/finance/mindingthemarkets/interviews/2-2007-Interview-Schedule.pdf.

structure and rhetoric of the underlying narratives which are typically authored by, and the prerogatives of, the asset managers themselves. In addition, fund managers, like CEOs, are signatories of their reports and assume legal responsibility for their contents. This acts as an incentive for them to scrutinise closely and approve the final version of the narrative prior to signature and publication. More importantly, the words in the fund manager's letters to investors are symbolic and emblematic, and the reader takes them to be their own.

The question of authorship can be further examined empirically by investigating variations between individual fund manager reports originating from the same investment house. If the content and style of a fund manager's commentary is significantly influenced by the overarching investment philosophy of the investment house or its in-house editors, narratives should appear largely homogeneous regardless of who the fund manager is. However, inspection showed this was certainly not the case in our sample. In fact, to explore this issue more formally we examined 50 other fund manager letters randomly selected across five investment houses and conducted cross-comparisons. Using a range of *Diction* content analysis software variables (Hart, 1984, 2001), as well as narrative readability and tone measures (Henry, 2008), we found a high level of within-sample variation directly attributable to the individual fund managers. We thus conclude it is appropriate to treat our formal fund manager reports as originating directly from the fund managers and being independently authored by them.

In our study, we specifically focus on the genres and plots of the stories our fund managers relate. In principle, story content may be a product of fantasy or experience. The plot functions to transform a chronicle or sequence of events into a story - knitting them together so that we can recognise their deeper significance and interconnectedness and why they occur (Gabriel, 2008, pp. 282-284). In this way, a sense of purpose is typically attributed to particular events even if these might otherwise be seen as unpredictable or accidental. Gabriel (2000) identifies four generic types of story: *epic, tragic, comic* and *romantic*. We will frequently refer to these genres in our analysis of fund manager narratives.

Epic stories have a plot that focuses on a significant achievement, a noble victory or success in a contest, challenge or trial. Such stories are designed to generate a feeling of pride in the narrator and admiration (and even envy) in the reader/listener for the protagonist or "hero". They almost always have a happy ending. Many of the stories our fund managers narrate about their investments that worked out are of this nature. *Tragic* stories, on the other hand, generate emotions of pity or sorrow, leading to respect and compassion for the "undeserving victim" with the plot built around the undeserved outcome, often with a "villain" present (such as the market or company management). Many of the stories our respondents narrate about investments that did not work out are of this nature. *Comic* stories generate laughter, amusement and levity with themes that might be mishaps, communication breakdowns, confusion or more generally the unexpected, with the plot focus being misfortune or deserved chastisement. *Romantic* stories, finally, have a lighter sentimental quality and evoke such feelings as love, gratitude and appreciation. Their plots tend to focus on "love triumphant" or misfortune conquered by love.

Table 1 summarises the characteristics of all the four main story genres. The listed genres are quite distinct in their plots and characteristic attributes. However, they can also merge to

produce *hybrid* genres such as *tragi-comic* and *tragi-epic.* In our analysis of stories fund managers narrate in both their interviews and formal reports, we focus on the main (dominant) story types and, in particular, *epic* and *tragic* story types, the most common ones.

[Table 1 here]

Following Gabriel (2000) we were able clearly to identify 172 distinct stories being told about their investments by our fund manager interviewees, an average of almost 3.5 per respondent, but only 53, or just over one on average in our formal fund manager reports. However, this difference is not surprising. There is a much larger proportion of factual, plotless or thinly plotted (proto-story) narratives in our mutual fund reports and our fund manager commentaries reflect the fact they are embedded in official disclosure documents filed with regulatory bodies. By contrast, our depth interviews provided a natural and confidential setting in which respondents could freely discuss their investment decisions, and thus provide a much richer set of stories for analytical purposes. Nonetheless, both sets of narratives clearly demonstrate that fund managers actively engage in storytelling to themselves and others in their attempt at sense-making and establishing legitimacy.

Table 2 classifies each set of stories to one of our four main genres in line with the story types of table 1. As can be seen, *epic* and *tragic* stories dominate in both our interviews and formal reports, accounting for 3 in 4 of our interview-derived stories (130/172) and 46 out of 53 in our fund manager published commentaries. Perhaps, not surprisingly, there are more *epic* stories than *tragic* ones although the differences are not statistically different in either case. However, more interestingly, a *chi-square* test of differences in story type distributions between our interviews and mutual fund reports is not significant. On this basis, we have no evidence that fund managers tell different types of story to third parties than they are, in effect, relating to themselves.

[Table 2 here]

Table 2 suggests fund managers rely predominantly on stories of an *epic* and a *tragic* nature to make sense of the unpredictable environment in which they operate. As we will see, when their investment strategies work out, typically they view themselves as the hero, and when things do not, they tend to take on the mantle of the (non-deserving) victim. Because of their prominence we concentrate on these two story types in our empirical analysis in the next two sections of the paper. In particular, we provide representative examples of the stories we encountered in both sets of investment narratives and the relevant poetic tropes to illustrate how storytelling is an integral part of how fund managers make sense of their work and seek self-legitimacy.

4. Investment stories and sense-making: evidence from interviews

In this section, we analyse the sample of fund manager interview transcripts introduced earlier. The interviewed fund managers all operate in a highly competitive and emotionally demanding environment where they are required to generate exceptional investment performance both in the short and longer term, as well as to find ways of dealing with the range of conflicting demands placed on them. Their investment decisions are only loosely related to subsequent outcomes, and thus, in doing their jobs in such a complex and often unpredictable environment, they often enter into relationships with their investments despite the fact that they can easily let them down. We describe how fund managers deal with the key requirements of their tasks, not so much by arrogance or overconfidence as could be supposed, but by making sense of what they do and gaining self-belief through telling stories.

Of course, this is not to suggest that the interviewed fund managers settle for *any* ordinary and perhaps irrational story. The stories fund managers narrate are about the things that happen to other investors, companies, countries, economies, resources, innovations and long-run fundamentals, among other topics (Tuckett and Taffler, 2012). In fact, their stories may not even be classified as narratives, rather they more closely fit the definition of *antenarrative* as explained in Boje (2001: 1-5). While the classic definition of narrative brings to mind a linear, coherent and ordered tale told by a single author(ity) (ibid), the antenarrative, on the other hand, "captures the 'lived experience' of storytelling in organisations where stories often have multiple authors (plurivocality), get built up in piecemeal fashion over time, often recounted only in fragments, never completely finalised and always open to new 'twists' as they are re-told" (Whittle and Mueller, 2012).

What is interesting is that given the environment in which fund managers have to work, their investment stories have to be continually replenished with new ones of investment successes, so that a manager's confidence in his or her particular "skills" is continuously reinforced. In section 4.1, we provide examples and discuss in more detail the role of epic stories in maintaining self-belief and pride among fund managers. In section 4.2, we conduct a similar analysis for tragic stories.

4.1. Investment successes: epic stories told in interviews

The epic stories fund managers narrate about their successful investments play a key role in their ability to generate the confidence they require to make daily investment decisions in otherwise chaotic, ambiguous and highly unpredictable situations. Let us start with one of our interviewees, George Monroe (pseudonym), who manages a $15 billion global value fund. This is how, in his own words, he invested in the US restaurant chain *Fast Foods* (pseudonym).

> And they had a meeting at their headquarters with the CFO.... And so I went, I talked with them, and, and, and I said, oh my goodness, I think I like what I'm hearing… But I said, I actually believe him, I believe him, and, and so I just came back and I started pushing. I was looking at the balance sheet, I started pushing the numbers, went over conference call transcripts from the prior two conference calls… So we bought it, it was great, all of those things sort of played out… we're probably a year and a half into it. It is coming up to probably 50%, and they are continuing to execute just incredibly well. I think this next quarter is going to be humongous.

The way George explains his investment in *Fast Foods* above is essentially telling a story with a specific beginning, middle and end. There is an initial trigger based on curiosity and a plot about an undervalued business that he manages uniquely to identify through his detailed analysis (the market is wrong) and then a successful outcome - a price increase of 50%, with more still to follow. The plot he constructs allows George to make sense of what he did and his investment success. He experiences pride in his competence and abilities and also provides meaning to himself that analysis of this nature can identify situations that others miss. At a deeper level, George feels that the uncertain and unpredictable world he operates in can be "managed" in this way, and there is an underlying pattern and sense in what he does. Of course, the same information he drew on was equally available to the other fund managers at the same investment meeting. Presumably they interpreted this in different ways and came up with different stories and associated investment decisions. In fact, George even wondered in his interview why everyone did not leave the meeting at *Fast Foods'* headquarters with the same idea he had and buy the stock—actually worrying there would be no investment opportunity open for him. We can see how his ability to tell a credible story to himself gave him the necessary belief to enter into a relationship with *Fast Foods* (i.e. buy its stock).

George Monroe was not alone, however, in doing this. Most of the interviewed fund managers, whether traditional stock-pickers or quant managers, seemed to engage equally in storytelling when explaining how they made investment decisions. In fact, fund managers used the term "story" to introduce or describe their investment decisions, both those which were successful and those that disappointed them, no less than 151 times; and "stories", usually in reference to a number of these, which were then elaborated on, a further 20 times. On average the term was used more than three times in each interview. It seems our fund managers were well aware of the crucial role storytelling plays in helping them make sense of their investment task and maintain their belief in their ability to generate alpha in the face of the demanding and hostile environment in which they had to operate.

Returning to George Monroe's explanation for the success of his investment in *Fast Foods*, we can see how the story he relates is in the *epic* genre, with him playing the role of narrator or protagonist but also *hero*. Deconstructing the story metaphorically, the plot focus is built around how George wins a noble victory in his implicit contest with other fund managers in the quest of identifying undervalued stocks, which he does in a courageous way through the *agency* of rigorous financial analysis. The story inspires emotions of *pride* (in the narrator) and also *admiration* (in the interviewer proxying for colleagues, superiors and clients). Importantly, the excited emotions the success of George Monroe's investment evokes - up 50% and an expected "humungous next quarter" - serve to reinforce his confidence in the value of his investment approach more generally, quite apart from justifying his belief to invest in *Fast Foods* in the first place. Other tropes employed by George Monroe in his story include (1) attribution of motive, e.g., "they [the management] really try and focus on managing their business", (2) attribution of causal connection, e.g., getting risk out of the business model, (3) attribution of responsibility in terms of credit, i.e., to George Monroe who managed heroically, "I started pushing the numbers", and (4) attribution of emotion, "other people don't get so excited about… taking risk away", unlike him.

The *Fast Foods* story also shares some features of the *romantic* genre (though not dominantly) with the business itself being the love object and George Monroe being seemingly and somewhat embarrassedly infatuated with his investment. In fact, in a further passage, he became so enthusiastic that he got spontaneously quite carried away in his narrative:

> I go into their restaurants all the time, I stand there and I watch, I'm like asking myself, what are people ordering? I was in there this morning, so, I swear to God, I was in their restaurant this morning … I have a couple of things … Oh, it's so gross, I was in there last night too, I got something on the train from it. They have an incredible amount of new products, and I stand there and I watch them and I see who's ordering what … I've been in so many of these restaurants over the past month I knew these sales numbers were going to be great because I've been like counting how many of these things are on the counter when I'm in there. So it turns out one of the products that I saw over and over they even ran out of … I'm not afraid to get into the trenches also and stand in a restaurant and see what they order. [And he concludes] So, I don't know, that worked out well, that's why it sort of worked out well.

Here the plot relates to how the narrator's love for *Fast Foods* leads to the recognition of a special insight and understanding. Through the attribution of emotion, George Monroe's infatuation with *Fast Food* makes it meaningful as a perfect investment in his eyes and this is communicated to his audience. Other tropes used to enhance his story include attribution of credit with *Fast Foods* as a *worthy* "love object" ,and attribution of motive, i.e., observing what people are ordering in restaurants as a predictor of group-wide sales numbers.[10]

Another example of the *epic* investment story could come from Mark Devreaux (pseudonym), who leads a large team running a group of value-based mutual funds and is responsible for investing $35 billion largely, but not exclusively, in the United States. His strategy is built around finding companies with low valuations that he judges to have considerable upside potential. He is also prepared to invest in distressed situations: "We're striving for steady, consistent, long-term returns… what makes for a good value investor is being able to, sort of, separate out the emotion."

Mark described three investments with which he felt satisfied. He used his successful investment in *Car* to illustrate to the interviewer (and implicitly, to himself) how well his investment process works. In this case, slightly more than a year before the interview, the news about the company was extremely negative, with one of its biggest suppliers seemingly at risk of bankruptcy:

> We kicked the tyres, did a lot of work. Kicked the tyres literally, figuratively, whatever and took a stake in *Car*. And the surprising part was the stock ran up very quickly… in a relatively short period of time, and hit our price target level very quickly, and then we made a decision to exit the stock at that point. We revisited it when there were another series of development in a large shareholder exited the stock; the stock came under a lot of pressure. Again, another flow of negative news, and we made a decision to re-enter… which again, you know, was somewhat controversial. And the stock had, you know, a nice rebound. We still own it…

[10] This story may also contain dimensions of a third hybrid genre, the *epic-comic* story with the hero, George Monroe, using irony and self-insight to explain his understanding of the business, e.g., "I'm not afraid to get into the trenches … and see what they order."

Mark's story is in characteristic epic mode, with the hero achieving significant success in terms of the challenge of dealing with a high-risk investment that is difficult to evaluate. He believed other investment houses had missed out on the opportunity because they had neither the same courage to take on the challenge nor, presumably, the same analytical abilities as his house has. Mark uses a range of poetic tropes to help generate emotional engagement in the story. These include attribution of the *agency* of his investment process, attribution of *credit* to him (and his team) for getting it right, and attribution of the fixed *qualities* of courage, industry, and coolness in the face of a complex and uncertain situation. His story evokes the emotions of *pride* in the teller and, implicitly, admiration in the listener and himself. The successful outcome also seems to provide reassurance to him that his investment process works, so he can safely continue to engage in relationships with such high-risk stocks. Also, in his storytelling, Mark appeared quietly satisfied with how his analysis had pushed out the emotion inherent in such an uncertain investment. His comment 'it was not easy going against consensus sentiment' suggests to him that they had a competitive advantage over others in line with his meta-narrative.

4.2. Investment failures: tragic stories told in interviews

When investments do not work out favourably, a common phenomenon in financial markets, fund managers often use stories in a tragic mode to make sense of what has happened, and to convey this sense to their clients. In our sample of interview narratives, there were a large number of stories narrated in a tragic genre usually in response to the request for examples where things did not work out as hoped. For example, George Monroe told one such story, *My Utility*. It was a business whose management team he clearly considered to have exceptional ability. Although they made acquisitions, cut costs and managed to make these work, their stock was underpriced:

> There was a valuation discrepancy between this company and most of its peers … [but] "that multiple disparity would eventually close"… Apparently everything went as planned, although the multiple never really closed. However, the two most senior people left "in the span of a three-month timeframe, I've never seen anything like that in my career." Both had left for better jobs and their loss was considered a big risk, "It's a fault of the board … I don't at all subscribe to the notion that it's just sort of bad luck for the company".

George thought very definitely that the board should have prevented it from happening, "you love this management team, you thought they would do exactly the right thing for you, you thought they would extract this value … but the two most senior people are both gone." George's *My Utility* story is clearly in a tragic genre with him as protagonist in the role of *undeserving victim*. The two executives who let him down play the roles of *villains* with the other characters - the board, which should not have let these two top executives leave for other jobs - being at best negligent, even if not implicitly colluding in his loss. The plot focus can be described as one of *undeserved misfortune* with some of the detailed attributions employed in his story generating underlying explanatory meanings by suggesting motives - it was almost as if he felt the managers left to thwart him, by allocating responsibility - *blaming* the board, and of providential significance, in this case *malevolent fate*. Emotions of sorrow, anger and pathos are clearly engendered in the telling of the story in both the narrator and the listener.

Interestingly, it may be overlooked that his thesis was not working out as he expected before the departure of the executives, with valuation multiples not aligning with those of equivalent firms.

When asked to remember investments that failed, our fund managers provided further examples of tragic stories, as well as stories in hybrid genres such as tragi-comic. In terms of plot, these stories were very similar to George's *My Utility* story. Table 3 lists the main context-specific elements of stories told in the epic and tragic genres and reports numbers of stories in each case.

[Table 3 here]

5. Investment stories and sense-making in formal reports

In this section, we demonstrate further evidence to support the storytelling hypothesis based on our set of formal fund manager reports. To test whether storytelling is as omnipresent as a process of sense-making when fund managers also address an external audience, we explore the content of their reports to investors. Should we find that similar stories and rhetorical tropes are used in formal reports, we will have further evidence that stories are a key way in which market participants make sense of their inherently unpredictable and anxiety-generating investment tasks. However, it is important to remember that the narratives we analyse in this section are official disclosure documents, and are thus expected to be more formal in their tone and structure than interview transcripts. As we will notice, these investment reports are nevertheless embedded with generally similar investment stories although one also comes across many instances of purely factual reports and proto-stories. We categorise the narratives in a similar way using the two common genres of epic and tragic stories.

5.1. Investment successes: epic stories in formal reports

About half of the stories we come across in reading fund manager reports are of the epic genre. These narratives display most of the features associated with epic stories in Table 1. In particular, the narrators of epic investment stories often attribute positive investment performance, explicitly or implicitly, to their stock-picking skills and downplay or ignore the role of favourable conditions in their macro-environment. Not surprisingly, epic stories are most common among funds that have outperformed their (often self-designated) benchmarks in their reporting period. For example, the narrative below is part of the fund manager commentary of a $3.1bn large-cap fund (by the name of *Madison Mosaic Disciplined Equity*) which claims to "seek long-term growth with diversification among all equity market sectors." The fund has managed to outperform its benchmark in the fiscal year prior to the report. We have added *italics* for emphasis:

> Against the fund's benchmark S&P 500's return of 26.46%, *Disciplined Equity* rewarded investors with a strong 32.50% gain. This was also ahead of its Lipper peer group, as the Lipper Large Cap Core Index rose 28.15%. With our portfolio currently allocated across S&P 500 sectors, the positive results against the S&P 500 and the Lipper Index were *largely a function of our stock selection... Our* goal is to own the highest quality companies we can in each sector of the market, a judgment made on an array of business metrics that boil down to a combination of attractive valuation and the ability to produce consistent, predictable earnings going forward… The market slump in the first quarter of the year *did trouble us* to some extent [but] the *strength of our stock picking* was evident in our outperformance in all ten S&P 500 sectors... With strong sector by sector performance, *our only weak spots* were a handful of companies that underperformed over our course of ownership.

The *protagonist* of this story is the fund's management team (or fund manager) who supposedly delivered superior returns relative to their self-designated benchmark. The story can be characterised as being in the *epic* genre with the protagonist as *hero. Inter alia,* the plot revolves around the market slump in the first quarter which constitutes a *challenge* or *trial*, despite which the fund manager is able to outperform her benchmark, or achieve *success* or, implicitly, a *noble victory* through the *agency* of her *ability* and *skill*. What is communicated to the reader is the emotion of *pride* and implicitly an expectation of *admiration* for the *achievement*. The reference to "our only weak spots" adds a touch of *humility* to the story in the end.

As another example of an epic story, let us look at the fund manager commentary of a $885m large-cap fund (by the name of *Bridgeway Aggressive Investors 2*) in 2007:

> Our Fund bounced back strongly in the June quarter, outperforming all our market and peer benchmarks. *Aggressive Investors 2* increased by an impressive 11.61%, *trouncing* our primary market index (the S&P 500 Index - down 2.73...) We are quite *pleased* with our selection of the Fund's positions which outperformed all of its benchmarks for the full fiscal year on both an absolute and relative return basis... The Fund suffered to some extent from exposure to financials *although* we managed to close some weak positions early on… While we *welcome* such strong results during these shorter-term quarterly and twelve month time horizons, our strategies stay constant and consistent in both good times and bad, in both strong and weak markets, during both "the sky is the limit" and "the sky is falling" investor environments.

In this epic story, the *protagonist* can be viewed as the fund itself and its managers implicitly, who manage to heavily defeat ("trounce") their benchmarks. The narrator is clearly very *pleased* with the fund's investment performance and its positions (selected through the *agency* of the managers' stock-picking skills) that resulted in outperforming its benchmarks. The managers were able to close down some weak positions exposing them to the financial sector (*the challenge*) supposedly early on although the Fund incurred some losses because of this. Once again, an implicit expectation of *admiration* is communicated to the reader for this *achievement.* The fund manager later goes on to explain that most of the Fund's top performers during the fiscal year were chemical-related stocks, and that they correctly anticipated the rising affluence of the population in many emerging markets and thus the demand for different foods and other materials, another good "judgment call" from the managers.

Telling a story in the epic genre can provide an opportunity for conveying the legitimacy of the narrator/protagonist. For example, towards the end of the same commentary above, the fund manager takes on the mantle of a wise teacher and strongly admonishes investors for trying to time the market, showing strong emotions in the process:

> We consistently encourage our investors not to "chase hot returns"… One of the *saddest* things we see some of our shareholders do is appropriately pick a given *Bridgeway* fund to meet their investment objectives, but to time the entry and exit of our funds so as to "destroy value" by buying after a market and/or fund run-up, and selling after a decline. This drives us *nuts*.

This and many other examples can suggest that emotions are communicated by fund managers even in their formal reports despite their role as official disclosures. In the following sub-section, we provide similar evidence based on tragic stories embedded in fund manager commentaries.

5.2. Investment failures: tragic stories in formal reports

In reading fund manager reports, we have come across a similarly large number of narratives that can be categorised as tragic stories and constitute more than a third of all the stories embedded in our formal reports. We find that tragic stories are more common among funds that have underperformed their benchmarks in the reporting year.[11] In constructing their plots, narrators often downplay, consciously or unconsciously, any reference to excessive risk-taking, poor stock-selection, weighting and timing decisions on their part. For example, note how the manager of a $7.5bn value fund (by the name of *Artisan International Value Fund*) seeks to explain the fund's underperformance relative to benchmark in the following commentary:

> The most noticeable aspect of the equity markets during the second and third quarters was the *absence of investor conviction*. Trading volumes were low, held down by both the normal *summer trading doldrums* and by the high level of economic and geopolitical uncertainty... The earnings of small companies are particularly vulnerable to *shifts in economic conditions*, and small-cap stock prices have historically reflected this vulnerability. Small caps were strong toward the end of previous year, and they became weak when investor sentiment changed. The July decline of growth stocks was particularly marked in the small-cap market. Despite a September surge by small-cap Internet stocks, the Russell 2500 Index (a broad small-cap index) was still negative at period-end.

In the above commentary, the fund manager portrays herself as the *undeserving victim* and focusses on the numerous *challenges* she has had to face in that year. Lack of investor conviction, the uncertainty in the environment and the "summer trading doldrums" all qualify for implicit *villains* of this story.

[11] Such narratives, particularly when absolute performance is positive, are relatively complex in structure. Jameson (2000) finds that similar narratives from her sample typically employ a nonlinear structure, contrast narrators to dramatise ideas, and embed various sub-genres such that readers are led to participate in constructing the investment story.

We also observed that the narrators of tragic investment stories often use indirect or implicit mentions of challenges, performance detractors, etc. presumably to soften the blow to their readers. Instead of simple and clear phrases such as "underperformance" and "poor performance", one comes across various euphemisms such as: *the fund faced a few clunkers*, *we had only a blemish on performance*, *our stock selection left something to be desired*, *the fund was caught up in some investments we rather like to forget*, *the fund experienced a slight headwind, the fund absorbed an opportunity cost, the fund is entering a catch up period,* etc. Such euphemisms and metaphors in explaining poor performance may be used, consciously or unconsciously, to confound or obfuscate the underlying bad news.

The following excerpt is part of the fund manager commentary of a fund by the name of *Stratton Multi-cap Fund* which had $995m of investments in 2007. The fund heavily underperformed its benchmark and its own average annual return during the reporting period of 2007.

> The performance of the Fund was *disappointing*. Our total return was less than 1%, compared to an average annual return of 12.4% over the past 30 years… we believe it was our overweighting in Energy and Business Cycle sensitive stocks that dragged our performance down… These stocks have been hurt by an unusually warm winter that lasted through early January. We believe that weather conditions always return to normal; when that happens it should be reflected in higher oil and natural gas prices resulting in higher prices of the underlying Energy equities. I want to *assure* our investors that management of the Fund is *disappointed* with the results and deeply committed to making the portfolio changes necessary to return the performance to a level more indicative of the long-term rates of return that the Fund has generated for its shareholders over 34 years.

Energy stocks (which underperformed due to an unusually warm winter by *malevolent fate*) are blamed as *villains* of this tragic investment story while the fund and its managers as well as its investors are implicitly portrayed as *undeserving victims*. The fund has lost in the *quest* against its peers as well as its own track record. The narrator is quick to point out his disappointment with the investment results. This may serve to generate a feeling of *pathos* in the readers which is a characteristic feature of tragic stories, see Table 1.

In the following tragic story, the fund manager is faced with the problem of justifying underperformance relative to benchmark. She avoids having to explain the fund's underperformance by engaging in a *dichotomy* between the fund's prior one-year and the prior three-year returns.

> For the twelve months ending September 30th 2006, the Growth & Income Fund was up 5.40%. This was below the S&P 500 Index which was up 10.79%. *Although the return for the last year was below average, a review of the last three years shows* the Growth & Income Fund to be competitive, up an average of 11.26% per year… It is always a *tug-of-war* in the securities markets with the negative forces of geopolitical events, natural disasters and corporate corruption pushing securities down… The good news is that in the long run, the positives have prevailed... *Our investment story* has been, and continues to be, that the negatives are more than offset by a strong US economy and record corporate profits. Our optimistic investment outlook *goes beyond* the US border.

The *villains* of the story are again the uncontrollable market forces which one can always blame for anything that has gone wrong. The fund manager also employs the "fighting" *metaphor* to stress the role of external factors. Towards the end, the fund manager takes on

the mantle of a teacher explaining to the reader how securities markets generally operate, prior to ending the narrative with a somewhat prophetic note of optimism.

[Table 4 here]

6. Discussion

This paper studies a wide range of fund manager stories told through both interviews and formal reports to investors. In it we demonstrate how fund managers engage in storytelling to help construct their identity, seek to justify their added value, despite lack of formal evidence they can outperform other fund managers or their benchmarks on any consistent basis, and make sense of an unpredictable and opaque market environment. Storytelling is an indelible part of the fund managers' search for meaning and self-legitimacy.

We show that a common set of unifying themes motivates the stories that fund managers narrate both in their interview narratives as well as their published commentaries on their investment performance. Depending on investment outcome, consciously or unconsciously, fund managers choose the story genre and elements of the plot, the protagonist and associated characters, and the poetic tropes that together are designed to generate the desired emotional response in themselves as narrator and the interviewer/report reader. Such a process allows fund managers to provide seemingly plausible explanations for their investment performance, particularly when not looked at too closely, both to *themselves* as well as their clients and employers, and maintain self-belief in the value of what they do.

Most of the stories fund managers related about their investment successes were in the *epic* genre with themselves as heroes in the quest of earning superior returns for their clients in competition with other asset managers against the backdrop of a threatening market environment. We also explored the stories they told about situations they had hoped would work out but did not. In such cases, the typical plot took on the guise of the *tragic* story genre. As Tuckett and Taffler (2012, p.67) explain, a significant feature of investment failures is that because of the way fund managers are able to explain (away) such outcomes with plausible stories, they do not appear "*to threaten their meta-narratives or underlying investment credo*." Instead, what is reinforced is their *raison d'être* or their *ontological security* as Giddens (1990) points out. Storytelling, in this sense, is a versatile way of explaining undesirable outcomes without threatening underlying beliefs.

Importantly, in stories, *unpredictability* does not imply *inexplicability*. Fund managers' stories clearly play a key role in providing the necessary meaning to them in what they do, even when there is no formal means of proving or disproving their underlying investment theses. "[*T]he truth of a story lies not in* the facts*, but in* the meaning*"* according to Gabriel (2000, p.4), because *"if people believe a story, if the story grips them, whether events actually happened or not is irrelevant."* The key selling point of the story is its *plausibility* and *coherence* rather than *accuracy*.

As we have pointed out storytelling and associated sense-making processes are directly related to self-legitimisation. Fund managers need to be able to demonstrate to themselves as well as their clients and investment houses their actions are "*desirable, proper or appropriate*" (Suchman, 1995). Suchman argues that legitimacy is *socially constructed* and leads to continuing support, increased trust (they " *have our best interests at heart*") and influence. Legitimacy also submerges the possibility of dissent, *i.e.,* in our case that fund managers may not, in fact, add value, "*for things to be otherwise is literally unthinkable*". Storytelling is a very effective way to do this.

Particularly interesting are the parallels with the life history interview-based study of Maclean, Harvey and Chia (2012) into the way business leaders use storytelling as the vehicle to make sense of and thereby legitimise what they do. These authors suggest that legitimacy largely concerns external validation. However, our research suggests that an integral part of what fund managers are doing in the stories they tell themselves and others is a search for *self*-legitimacy. They have to justify what they do when they "know" what is required of them, which is to generate "alpha" for their clients on a consistent basis is, at best, very difficult if not impossible to do.

Maclean, Harvey and Chia (2012) identify four broad thematic modes of legitimisation in their 16 separate interviews: "*defying-the-odds*" (triumphing despite adversity); "*staying-the-course*" (persevering over the years); "*succeeding through talent*" (earning success through skill and application); and "*giving back to society*" (sharing success with others). Interestingly, there are direct parallels in the self-legitimisation processes of our fund managers, although in the case of giving back to society we have less direct evidence in our interviews and formal reports. What there is has more to do with the implicit social value fund managers perceive they provide in helping clients meet their financial goals for different purposes (need examples here).

Brown, Stacey and Nandhakumar (2008) argue more generally that sense-making can also be analysed using notions of *impression management* and *attributional egotism*. The former refers to the self-presentation behaviours individuals employ to influence the perceptions others have of them, and the latter to the tendency of people to attribute favourable outcomes to their own actions and unfavourable outcomes to external factors. We certainly observe behaviours in our interviews and formal reports that can be described in these terms, particularly in the way epic- and tragic-type stories are employed. However, fund manager processes of identity generation, sense-making and attempts at self-legitimation are more subtle and less conscious than conventionally viewed. Both activities, if deliberate, in fact, imply a degree of guile and cynicism that is very unlikely to be common in practice. Rather, it is the power of the storytelling process to manage meaning that plays a key role, not simple explanations of the perceived reasons for out- or undeperformance. As we have pointed out our fund manager interviewees were uniformly able and hard-working professionals, dedicated to what they were doing and seeking to act in the best interests of their clients and investment houses (e.g., Tuckett and Taffler, 2012, p.5).

Fund managers are fixed on the horns of a dilemma. They "know" on one level that there is little empirical evidence they are able to do what is expected of them, but on the other hand have to believe it is nonetheless possible to deliver superior returns. How they deal with this seemingly irreconcilable conflict and are able to make sense to themselves of what they do is a far more fundamental question and one we have sought to explore in this paper.[12]

Finally, we must emphasize that fund managers are not the only group of economic agents that tell stories to make sense of what they do. Financial analysts, for example, employ very similar processes for sense-making using stories (Fogarty and Rogers, 2005). Their sense-making process is built around their differential reaction to good as opposed to bad news, a celebration of a firm's change in direction, and a lack of a hard science of financial analysis based on the idea that the past holds most of the clues needed to predict future outcomes. Tuckett and Taffler (2012, p. 48) add "*brokers, consultants, PR firms, journalists, economists, and just about everyone else in financial markets*" to the list of economic agents who tell stories to make sense of what they do. We are just beginning to understand the important role storytelling plays, not only in maintaining the self-beliefs and professional activities of market participants, but also, by extension, in the continued functioning of financial markets. In fact, we echo Tuckett (2012) that financial markets may not be driven by different perceptions of asset valuation as is commonly viewed, but are fundamentally *markets in stories*. The ultimate question is, who tells the better story? But that, as they say, is the cue for another story!

[12] Tuckett and Taffler (2012, pp. 95-97) in fact point out that investment professionals do a "*workmanlike and valuable job for their clients*", but this differs to what their role is conventionally (wrongly) perceived to be.

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Table 1: Four common story genres

This table lists the four generic story genres commonly used in storytelling together with their characteristic attributes which sets them apart (Gabriel, 2000, pp. 83–84).

	Epic	**Tragic**	**Comic**	**Romantic**
Protagonist	Hero	Non-deserving victim	Deserving victim, fool	Love object
Other characters	Rescue object, assistant, villain	Villain, supportive helper	Trickster	Gift-giver, lover, injured or sick person
Plot focus	Achievement, noble victory, success	Undeserved misfortune, trauma	Misfortune as deserved chastisement	Love triumphant, misfortune conquered by love
Predicament	Contest, challenge, trial, test, mission, quest, sacrifice	Crime, accident, insult, injury, loss, mistake, repetition, misrecognition	Accident, mistake, coincidence, repetition, the unexpected and unpredictable	Gift, romantic fantasy, falling in love, reciprocation, recognition
Poetic tropes	Agency Motive Credit Fixed qualities (nobility, courage, loyalty, selflessness, honour, ambition)	Malevolent fate Blame Unity Motive (to the villain) Fixed qualities by juxtaposition (victim: noble, decent, worthy, good; villain: evil, devious, mean etc.)	Providential significance Unity Agency before misfortune Denial of agency during misfortune Fixed qualities (pomposity, arrogance, vanity etc.)	Emotion (loving, caring) Motive Credit (worthy love object) Fixed qualities (gratitude, caring, loving, vulnerable, pathetic)
Emotions	Pride, admiration, nostalgia, envy	Sorrow, pity, fear, anger, pathos	Mirth, aggression, hate, scorn	Love, care, kindness, generosity, gratitude, nostalgia

Table 2: Story genres narrated by fund managers

This table reports the number of distinct stories in each main genre based on our full sample, i.e. both interviews and formal reports. The numbers in brackets indicate the corresponding proportion in percentages.

Story genres	**Interviews**	**Formal Reports**
Epic	77 (45%)	27 (51%)
Tragic	53 (31%)	19 (35%)
Comic	16 (9%)	4 (8%)
Romantic	26 (15%)	3 (6%)
Total	**172 (100%)**	**53 (100%)**

Table 3: Typology of stories narrated by the sample fund managers in their interviews

This table reports the frequent occurrence of two story genres (epic and tragic) and their main rhetorical elements based on a 30% random sample of our fund manager interviews, i.e., 15 interviews.

Story elements	Genres	Contextual examples	Number of stories
Protagonist	*Epic*	The fund manager as the *hero*	14
		The fund as the *hero*	6
	Tragic	The fund manager as the *non-deserving victim*	5
		The fund as the *non-deserving victim*	13
Other characters	*Epic*	Clients	3
		Analysts (often as *supporters*)	12
		Company executives (often as *supporters*)	7
		The "market" (personified as *supporter*)	5
	Tragic	Clients	3
		Analysts (often as *mitigators*)	7
		Company executives (often as *mitigators*)	5
		The "market" (personified as *villain*)	4
Plot focus	*Epic*	*Quest* of identifying a mispriced security	8
		Noble victory of finding a mispriced security	7
		Noble victory of making positive returns	4
	Tragic	*Trial* of a misleading investment opportunity	6
		Undeserved misfortune with the investment process	5
Predicament	*Epic*	*Challenge* of building consensus	3
		Challenge of acting against consensus	6
		Challenge of dealing with market downturns	8
		Challenge posed by short-termism	2
	Tragic	*Misrecognition* of investment opportunity	6
		Misrepresentation of a company by its managers	4
		Challenge posed by unpredictable external events	2

		Challenge of dealing with stakeholders	3
		Challenge of closing a position at financial loss	4
		Challenge of dealing with associated trauma	5
Poetic tropes	*Epic*	*Agency* of the fund manager's skills	9
		Attribution of (self-serving) causality	4
		Attribution of responsibility and credit	5
		Attribution of emotion	7
	Tragic	*Agency* of malevolent fate	4
		Attribution of (self-serving) causality	2
		Attribution of blame to company executives	6
		Attribution of emotion	6
Emotions	*Epic*	*Pride* in own ability and skills	3
		Pride in the team, analysts, etc.	11
		Satisfaction with the investment outcome	10
		Expectation of *admiration* for achievements	5
	Tragic	*Sorrow* associated with the investment outcome	7
		Expectation of *pity* at the investment outcome	3
		Fear associated with occurrence of similar events	3
		Anger directed towards external factors	4

Table 4: Typology of stories narrated by sample fund managers in their formal reports

This table reports the frequent occurrence of two story genres (epic and tragic) and their main rhetorical elements based on a 30% random sample of our fund manager reports i.e., 15 reports.

Story elements	Genres	Contextual examples	Number of stories
Protagonist	*Epic*	The fund manager (often "I") as the *hero*	2
		The "fund" as the *hero*	5
	Tragic	The fund manager (often "we") as the *non-deserving victim*	3
		The "fund" as the *non-deserving victim*	6
Other characters	*Epic*	The "market" (personified as *supporter*)	4
		The regulator	3
	Tragic	The "market" (personified as *villain*)	4
		The regulators	2
Plot focus	*Epic*	*Quest* for a mispriced security/sector and the *noble victory* of finding it	2
		Noble victory of gaining positive absolute returns	4
		Noble victory of beating the benchmark	5
	Tragic	*Trial* of a misleading investment opportunity	3
		Undeserved misfortune with an investment process	2
Predicament	*Epic*	*Challenge* of acting against consensus	2
		Challenge of dealing with market downturns and short-termism	3
	Tragic	*Challenge* posed by unpredictable external events	2
		Challenge of closing a position at financial loss	1
Poetic tropes	*Epic*	*Agency* of the fund manager's skills	4
		Attribution of (self-serving) causality	2

	Tragic	*Agency* of malevolent fate	2
		Attribution of (self-serving) causality	3
Emotions	*Epic*	*Pride* in own ability and skills	2
		Pride in the team, analysts, etc.	2
		Satisfaction with the investment outcome	4
		Expectation of *admiration* for achievements	3
	Tragic	*Sorrow* associated with the investment outcome	2
		Fear associated with occurrence of similar events	1
		Anger/blame directed at external factors	4