The London School of Economics and Political Science

AGENTS OF TRANSPARENCY:

How Sell-Side Financial Analysts Make Corporate Governance Visible

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A thesis submitted to the Department of Accounting of the London School of Economics and Political Science for the Degree of Doctor of Philosophy

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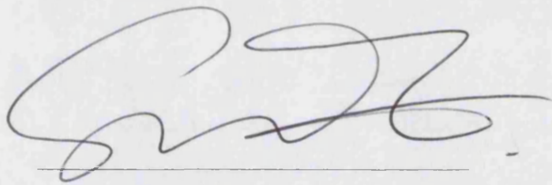

Zhiyuan Tan

Abstract

This thesis examines the phenomenon of sell-side financial analysts (analysts hereafter) "doing" corporate governance. The term "doing" is used in the current study to designate the various ways in which some analysts in the US and the UK, across the past decade or so, have made corporate governance visible. The thesis examines how this has occurred, and the mechanisms and devices that have made it possible. Analysts, it is suggested, can be viewed as "agents of transparency", in so far as they have taken the evaluation of companies beyond the financials, to include corporate governance issues.

The thesis focuses primarily on the corporate governance reports produced by analysts, the official documents issued by various organisations and institutions, selected financial and business newspapers and magazines, together with other documents such as textbooks of corporate governance, as well as academic and practioner publications on corporate governance. Through an examination of these materials, the thesis investigates the pre-conditions that made possible the appearance and development of the corporate governance work pursued by analysts in the early twenty-first century. It examines the evaluations performed by analysts of the corporate governance procedures adopted by companies. In particular, it focuses on the ways in which analysts benchmarked the corporate governance procedures of companies against formal regulations, and how comparisons of the governance procedures adopted by different companies were undertaken and facilitated by analysts. Benchmarking, and the making of comparisons of corporate governance practices through a range of devices, are examined. The thesis also examines the linking of corporate governance to the financials (such as profitability, stock price performance, and equity valuation) in the investment analyses performed by analysts. It concentrates on the way in which analysts integrated corporate governance issues in the investment decision making process. Attention is paid to the ideas that shaped and articulated the integration, as well as to the tools and devices deployed by analysts.

This thesis argues that greater attention is needed to the "doing" of corporate governance

by analysts, and its implications for these "agents of transparency" that have broadened the parameters through which transparency is assessed.

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Chapter 1

FINANCIAL ANALYSTS MAKE CORPORATE GOVERNANCE VISIBLE: AN INTRODUCTION

1. Doing corporate governance: the work of sell-side financial analysts

This thesis is about viewing financial analysts as *agents of transparency*. It examines how sell-side financial analysts (analysts hereafter)[1] have made corporate governance visible and operable, how this has occurred, and the mechanisms and devices that have made it possible. *Doing corporate governance* is the term that is used to designate the phenomenon under investigation here, the ways in which some analysts in the US and the UK have started to work across the past decade on corporate governance issues. This thesis takes this "doing" of corporate governance by analysts as the central object of enquiry. It investigates the various ways in which analysts have evaluated companies beyond the financials to consider corporate governance issues. It examines also the various ways in which analysts have come to act as a key link between notions of corporate governance and the financials.

Sell-side investment research has traditionally been organised in the equity research divisions of brokerage firms. Most analysts who perform sell-side research specialise by industry sectors, and study companies in a specific sector. These analysts have often been termed equity research analysts. In general, these analysts write equity research reports in which they offer investment recommendations to the investing public. Traditionally, they have concentrated mainly on the financial and operational aspects of corporations (Gullapalli, 2004). Since the early 21st century, however, some of these analysts in the US and the UK have started to show interest in corporate governance issues, and have brought corporate governance within the boundaries of their work

[1] The term "analysts" in this thesis generally refers to sell-side financial analysts, unless otherwise stated.

territory. These equity research analysts work on governance issues mostly on an individual basis within the industry sector teams in which they are typically based. Analysts in so-called Socially Responsible Investment (SRI) or Environmental, Social, and Corporate Governance (ESG) teams have also started to pursue corporate governance research. These teams are also normally located in the equity research divisions of brokerage firms. Analysts who work in these teams are sometimes termed SRI analysts, or corporate governance analysts. Since both equity research analysts and SRI and corporate governance analysts work in the equity research divisions of brokerage firms, or on the so-called "sell-side", this thesis adopts a broader notion of "sell-side financial analysts" to include under this umbrella both types of analysts. The phenomenon of some sell-side financial analysts in the US and the UK starting to work on corporate governance issues from the early 21st century is captured by the term *doing corporate governance* in this thesis.

The "doing" of corporate governance by analysts consists of at least two aspects. First, analysts have undertaken evaluations of the corporate governance procedures adopted by companies. Second, analysts have attempted to link corporate governance to the financials (such as profitability, stock price performance, and equity valuation) in investment analyses. The corporate governance reports produced by these analysts allow us to identify these two aspects of doing corporate governance. These reports document the corporate governance evaluations, and the integration of corporate governance within the investment analyses performed by analysts[2]. They demonstrate, it is suggested, that analysts have explicitly brought corporate governance within the boundaries of their work territory. In addition, the doing of corporate governance by analysts has also been reported in the financial press (Gullapalli, 2004; Sweeney, 2004), as well as highlighted in official documents issued by various organisations and institutions, such as the United Nations (The UN Global Compact, 2004, 2005, 2009; The UNEP FI, 2004), the British Trade Union Congress (TUC, 2005), the Conference Board (cf. Tonello, 2006), among the others.

[2] This thesis differentiates the corporate governance reports produced by analysts from the traditional equity research reports. Corporate governance reports mainly concentrate on issues related to corporate governance. Analysts do not issue earnings forecasts or offer investment recommendations through corporate governance reports.

This thesis specifically concerns the doing of corporate governance by those analysts who have documented the corporate governance evaluations or the integration of corporate governance within investment analyses in written reports[3]. Accordingly, this thesis focuses on the corporate governance work undertaken by a subset of analysts in the US and the UK, rather than the whole analyst population. By concentrating on those analysts who have produced corporate governance reports to document their work on corporate governance, this thesis aims to explore what is at stake in *doing* corporate governance.

Through this "doing" of corporate governance, as will be argued later in the thesis, analysts have made corporate governance visible and transparent. Analysts can be viewed as *agents of transparency* who have contributed to making operable the perceived ideal of "transparency" in financial markets. More specifically, analysts have created new visibilities of the corporate governance procedures adopted by companies, transformed the link between corporate governance and the financials from hypothetical and potential to material, visible, and factual, and made visible the category of corporate governance as a risk factor in the investment decision making process.

1.1 Sell-side financial analysts

While doing corporate governance is a relatively recent activity undertaken by some sell-side financial analysts in the US and the UK, the more traditional financial analysis work performed by these analysts has been subject increasingly to social scientific analysis that has gone beyond conventional econometric analyses in recent years (e.g. Beunza & Garud, 2007; Fogarty & Rogers, 2005; Zuckerman, 1999). Sell-side financial analysts are expected to be independent of the companies that they follow. They have always been regarded as important information intermediaries between investors and investee companies in financial markets. They gather information about companies from various sources[4], re-arrange it, and disseminate it mainly through the equity research

[3] There may be some analysts who have considered corporate governance in investment analyses but do not produce reports with corporate governance as the main topic.
[4] Miller and O'Leary (2000: 2) suggest that "analysts base their evaluations of long-term value creation

reports to constituents of the investing public. By making information about companies available, or by changing the manner in which the information is disclosed and represented, analysts help reveal and make visible the operation and financial performance of companies. The information about companies contained in equity research reports, as well as the investment recommendations and price targets offered by analysts, may inform the buy, hold, and sell decisions of investors as well as fund managers. The expectation of a wide range of investors on specific companies is to a great extent influenced by the information provided by analysts. Indeed, analysts have been depicted as "gatekeepers" in the corporate system (e.g. Coffee, 2006; Fuchita & Litan, 2006; Healy & Palepu, 2003). This means that analysts are considered potentially capable of shedding light on opportunistic corporate behaviour, and may provide additional monitoring of companies, and hence can play a significant role in influencing corporate conduct.

Sell-side financial analysts are often contrasted with the other type of analysts in financial markets, namely, buy-side financial analysts[5]. Buy-side analysts typically work for institutional investors in fund management firms. While not producing written reports for the investing public, buy-side analysts make intensive use of the reports produced by sell-side analysts in their investment analyses. As buy-side analysts work closely with and on behalf of institutional investors, they have not only been concerned about the operational and financial aspects of corporations. Buy-side analysts have also long opined on the governance of companies, and examined the corporate governance procedures adopted by investee companies (Gullapalli, 2004). Relative to the on-going concern about corporate governance on the part of buy-side analysts, the relatively recent "doing" of corporate governance by some analysts on the sell-side represents a new phenomenon that deserves special consideration. The availability of the corporate governance reports produced by sell-side analysts also allows us to examine how corporate governance has been made visible and operable by these analysts.

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capacity [of companies] on a broad range of information". This information includes both financial and non-financial information. Some of the information is based on formal disclosure by the company, but some of it comes from industry-wide sources and third-party sources. The notion of "information ecosystem" is deployed by Miller and O'Leary (2000) to characterise the "complex and dynamic" flows of various sources of information.

[5] Coffee (2006) identifies a third group of analysts, namely, independent analysts. These analysts typically work for broker-dealer firms that do not provide investment banking services.

1.2 Expanding the mechanisms of corporate governance

The notion of "corporate governance" is subject to varying interpretations, which makes arriving at a single definition of corporate governance a difficult task (e.g. Keasey, Thompson, & Wright, 2005a; Solomon, 2007). This thesis concentrates on the diverse mechanisms of corporate governance, whether it is the actors, agencies, or devices deployed, that have been commonly perceived as having the potential to affect the conduct of corporations. It has been widely perceived that the main mechanisms of corporate governance include the Board of Directors (especially non-executive directors) and board committees, internal control, external financial audit, and institutional investor voting and engagement with companies, among others (Brennan & Solomon, 2008). These, and other prevailing mechanisms of corporate governance, have been developed and proposed with the aim of making corporations accountable, transparent, and responsible in financial markets (e.g. Cadbury, 1992; OECD, 2004b). These mechanisms have been strongly emphasised in various codes, principles, and guidelines of corporate governance. For instance, the UK Cadbury Report (1992) stressed the need for boards of directors in listed companies to be effective, and made recommendations for best practice of the corporate boards. The UK Smith Report (2003) and the US Sarbanes-Oxley Act (US Congress, 2002) both dealt with issues regarding the relationship between external auditors and the companies they audit, and the role and responsibilities of audit committees of companies. Furthermore, the importance of active engagement of institutional investors with their investee companies, and of dialogue between these two parties was initially pointed out in the Cadbury Report (1992), and was then emphasised in the Combined Code (1998) and the Higgs Report (2003) issued in Britain. These mechanisms of corporate governance have also come to feature in textbooks of corporate governance, and have been critically discussed and debated in academic research (e.g. Keasey, Thompson, & Wright, 2005b; Mallin, 2004; Solomon, 2007).

However, other mechanisms of corporate governance have also been considered as able to influence the way in which corporations are governed, although they have been little

discussed in formal regulations or textbooks of corporate governance. For instance, the World Bank (2000: 9) considered that "private sector agents, self-regulating bodies, the media, investment and corporate governance analysts, and civic society" are potentially able to "[...] reduce information asymmetry, improve monitoring of the firms, and shed light on opportunistic behaviour". Sir Adrian Cadbury, who chaired the committee to develop the first corporate governance code in Britain in 1992, recently proposed that broader constituents of the investing public are potentially capable of influencing corporate behaviour as well as the expectations of institutional investors (Cadbury, 2006). As suggested by Cadbury (2006: 41), these broader constituents include "the media in all its forms, financial advisers, analysts and commentators, financial institutions, and the body politic". Also, according to Engwall (2006), prior academic research in corporate governance employed a too narrow conception of corporate governance, which tended to focus only on the relationships between shareholders and management. He suggested that the roles that "other significant counterparts and stakeholders of the corporation", such as governments, the media, and civil society[6] (ibid: 162), can play in governing corporate conduct need to be researched. In addition, in the editorial for a recent special issue on Corporate Governance and Accountability in the *Accounting, Auditing & Accountability Journal*, Brennan and Solomon (2008) explicitly pointed out that research into mechanisms of corporate governance needs to be broadened and frontiers of corporate governance research be pushed forward. The doing of corporate governance by analysts that this thesis examines represents a new phenomenon that merits study within this overall line of enquiry. This thesis brings sell-side financial analysts within the study of corporate governance. It investigates in what way the doing of corporate governance by analysts can be viewed as contributing to expanding the mechanisms of corporate governance.

1.3 A focus on analysts in both the US and the UK

This thesis focuses on the subsets of analysts who have worked on corporate governance in the US and the UK. These analysts largely come from international brokerage houses and investment banks that operate on both sides of the Atlantic. Within the same

[6] Engwall (2006) considered three counterparts, namely, governments, the media, and civil society in his study.

international brokerage firm, on-the-job training for analysts in the US and the UK respectively is likely to be similar, if not exactly the same. Analysts in these two geographical jurisdictions may have developed and acquired very similar analytical skills and shared common views on certain issues in the investment research process. Also, in both countries, there has been an increasing number of people in the financial services industry who have studied or been studying for the Chartered Financial Analyst (CFA) investment professional qualification which has been regarded by *The Economist* as "the gold standard among investment analysis designations"[7]. These clearly include existing analysts, as well as those who intend to become analysts. "Corporate governance" has formally been included in the CFA curriculum since 2006[8], and regarded as an element that constitutes the "framework for making investment decisions" (The CFA Institute, 2008: 20). Analysts who have been studying for, or have obtained the CFA in both countries, will have been equipped with a basic understanding of issues related to corporate governance[9]. Furthermore, analysts on both sides of the Atlantic started to work on corporate governance issues more or less at the same time, namely, from the early 21st century. At that particular historical moment, corporate governance was perceived as a problem both in the US and the UK. Improving standards of corporate governance and reforming the corporate systems were considered as important agendas put forward by governments, regulators, institutional investors, corporations, professional associations, and other stakeholders in both countries.

In addition, both the US and the UK operate so-called Anglo-Saxon systems of corporate governance. Within such systems, most companies listed on the stock

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[7] See http://www.cfainstitute.org/cfaprog/overview/facts.html.

[8] This information was obtained through personal contact by the author of this thesis with the CFA Institute via email in November 2009.

[9] Some analysts may have worked as auditors or accountants before they become research analysts at brokerage firms. These analysts may have acquired knowledge of corporate governance through their prior professional accountancy training with professional bodies such as the ICAEW (Institute of Chartered Accountants in England and Wales), the ACCA (Association of Chartered Certified Accountants), CIMA (Chartered Institute of Management Accountants), and others. "Corporate governance" has been included in the syllabuses for the training programmes of these professional accountancy bodies. For example, as informed by the Innovation & Technical Development Manager of the ICAEW (via email contact by the author of this thesis on 21/01/2010), the term "corporate governance" first appeared in the syllabus for the Associate Chartered Accountant (ACA) qualification granted by the ICAEW in 2000. However, this phrase had already been used in the draft of this syllabus in 1998. This manager also suggested that elements of corporate governance had been dotted around the ACA syllabuses in auditing and business management, though not under the umbrella term, even before 1998.

exchanges are controlled by managers who are responsible for the day-to-day operation of the firms, but owned by outside shareholders[10]. The outside shareholders are predominantly institutional investors[11], including pension funds, insurance companies, unit trusts, investment trusts, and other financial institutions, but they also include individual investors. Increasingly, institutional investors in both the US and the UK have been trying to gain a greater influence over the management of companies by more actively exercising their voting rights and closely engaging with investee companies (e.g. Solomon, 2007). Nevertheless, several differences still exist between the corporate governance systems operated in the US and the UK. For instance, the approach to regulating corporate governance in the two countries differs, with the US adopting a "rule-based" regulatory approach, and Britain having a "principle-based" regulatory culture. However, the main mechanisms of corporate governance that have come to prevail in these two countries can be regarded as broadly similar. Mechanisms of corporate governance, such as the board of directors (especially non-executive directors) and board committees, internal control, external financial audit, institutional investor voting and engagement with companies that have been mentioned in the previous section, have been strongly emphasised in the corporate governance regulations and principles issued in these two countries. Also, it has been suggested that there is a trend toward an international convergence of ideas on what constitutes best practice for corporate governance (e.g. Mallin, 2004; Solomon, 2007). The regulatory elements contained in rules, codes, principles, and guidelines of corporate governance worldwide have tended to converge over the last two decades.

There are structural and procedural differences between the doing of corporate governance by analysts in the US and the UK. The corporate governance reports written

[10] This system is also termed "outsider" (e.g. Short, Keasey, Hull, & Wright, 1998) or "market-based" (e.g. Zysman, 1983) system of corporate governance.

[11] As noted by Mallin (2006: 76), throughout the 20th century, institutional share ownership increased in both the US and the UK. In Britain, according to the figures compiled by the Office for National Statistics (ONS), ownership by insurance companies increased from 10% in 1963 to 17% in 2004 while that of pension funds increased from 6% to 16%. For the largest 1000 US corporations, according to a report issued by The Conference Board (2008), institutional investors increased their holdings from an average of 46.6% of total stock in 1987, to an average of 61.4% by 2000, and then to an 76.4% by 2007. It is further argued by Solomon (2007: 110) that "[...] the growing concentration of shareholding by a relatively small number of institutional investors is resulting in the evolution of a capitalist system in the UK and in the USA that bears little resemblance to the fragmented and dispersed stock market of Berle and Means (1932)".

by analysts in the US have typically been produced by equity research analysts on an individual basis within the industry sector teams. These analysts have tended to focus on performing evaluations of the corporate governance procedures of companies. In contrast, analysts in the UK have made more attempts at linking corporate governance to the financials in investment analyses, and these have been mostly undertaken by analysts in the specialised SRI or ESG teams within the equity research divisions of brokerage firms. Although this is the general pattern, exceptions exist. Rather than explore the reason behind this general pattern or the exceptions, this thesis concentrates on the process through which the doing of corporate governance by analysts in the US and the UK as an overall phenomenon emerged, and the mechanisms and devices that analysts have deployed for doing corporate governance.

The rest of this chapter is organised as follows. The next section sets out in more detail the specific questions that this thesis addresses regarding the doing of corporate governance by analysts. It also elaborates on the key theme of the thesis, namely, the notion of analysts as *agents of transparency*. The theoretical lenses and concepts which inform and underpin the empirical analysis of this research are then introduced. Next, the various empirical materials that this thesis draws upon in order to address the research questions are highlighted. This chapter ends with an overview of the remaining chapters of the thesis.

2. Analysts make corporate governance visible

Various questions can be asked about the doing of corporate governance by analysts. This section highlights the research focus of the thesis and sets out the specific research questions that this thesis addresses. It also further introduces the key theme that this thesis intends to put forward, namely, analysts as *agents of transparency* making corporate governance visible.

2.1 Research focus and questions

The first issue that this thesis addresses is how and in what settings the doing of corporate governance by analysts emerged. It is often suggested that the corporate governance work undertaken by analysts more or less commenced subsequent to the outbreak of a series of highly debated corporate scandals in the early 21st century, such as Enron, WorldCom, and Global Crossing (e.g. Gullapalli, 2004; Sweeney, 2004), and that it coincided with a series of regulatory initiatives[12] that followed these much-cited events. However, this thesis locates the emergence of the doing of corporate governance by analysts in the US and the UK within a broad social and historical context. More specifically, this thesis investigates the issues debated, and the actions and activities undertaken by a multiplicity of different actors and agencies that made it possible for analysts to bring corporate governance within the boundaries of their work territory at a particular historical moment. The agents and agencies included national and international governmental and non-governmental organisations, professional groups, institutional investors, and financial institutions. These issues, actions, activities, together with the individuals, organisations, and institutions involved, are not viewed as constituting the direct and proximate cause of the emergence of the corporate governance work pursued by analysts. Instead, they are understood in this thesis as providing the *conditions of possibility* for the doing of corporate governance by analysts to appear and develop. They are viewed as the dispersed factors that gave rise to and facilitated the emergence of the corporate governance work performed by analysts in the US and the UK in the early 21st century.

In addition to examining the historical and social settings in which the doing of corporate governance by analysts appeared, this thesis investigates the two aspects of the phenomenon. The first aspect is the evaluations undertaken by analysts of the corporate governance procedures of companies. Analysts have been considered as the evaluating audiences of corporations, and have traditionally focused on the operational and financial aspects of companies. The corporate governance evaluations performed by analysts indicate that the evaluating activities undertaken by analysts have been

[12] For instance, the enactment of the *Sarbanes-Oxley Act* (2002) and the *New York Stock Exchange Corporate Governance Rules* (2003) in the US, the revision of the *Combined Code of Corporate Governance* (2003) in the UK, the revision of the *OECD Principles of Corporate Governance* (OECD, 2004b).

extended to the field of corporate governance. While the corporate governance procedures adopted by companies have frequently been evaluated, assessed, and monitored by various organisations external to companies, such as corporate governance rating firms, this thesis reveals the specific features of the corporate governance evaluations undertaken by analysts. Corporate governance practices and procedures are specified by a variety of regulatory bodies and codes, including stock market listing rules, international and national governance codes, company laws, and financial regulations. This thesis pays special attention to the questions of how regulations of corporate governance have been drawn upon, and how regulatory requirements have been unpacked and re-interpreted by analysts in their corporate governance evaluations. Also, making comparisons of the operational and financial aspects of different companies has traditionally been practised by analysts in their equity research process (e.g. Beunza & Garud, 2007). This thesis examines to what extent making comparison has been deployed by analysts also in their corporate governance evaluations, and through what mechanisms comparisons have been made and represented. Regarding the first aspect of the doing of corporate governance by analysts, the thesis also considers how the perceptions of companies' corporate governance procedures held by financial market participants such as institutional investors can be altered and transformed by the corporate governance evaluations performed by analysts.

The linking of corporate governance to the financials and the integration of governance issues within investment analyses represents the second aspect of the doing of corporate governance by analysts. The agenda put forward by financial market participants for integrating corporate governance in the investment decision making process started to surface in the early 21st century (e.g. The UN Global Compact, 2004, 2005, 2009; The UNEP FI, 2004). Nevertheless, a common and consistent understanding of how to incorporate corporate governance issues in asset management, securities brokerage services, and the associated buy-side and sell-side research functions is seen not to exist yet (The UN Global Compact, 2004: 1). The integration of corporate governance within the investment analyses undertaken by analysts can be thought of as an emerging form of economic calculation. What constitutes this particular form of economic calculation and how such integration has been performed by analysts are the specific research

questions that this thesis addresses regarding the second aspect of the doing of corporate governance by analysts. To address these questions, on one hand, this thesis tracks the extant prevailing ideas related to the potential link between corporate governance and the financials, the ideas about the importance of incorporating governance issues in the investment decision making process, as well as the perceptions of what analysts could and should do to link corporate governance to the financials. On the other hand, the thesis examines the concrete work pursued by analysts, in particular, the devices and tools deployed by analysts, in linking governance issues to the financials. This thesis further considers how these devices and tools can help bring the category of corporate governance, which is commonly perceived as a risk factor, into the investment decision making process, and how they can transform and re-present the link between corporate governance and the financials.

In the next section, the notion of *agents of transparency* is set out in greater detail, and the concept of "transparency" in the context of this thesis is designated and elaborated upon.

2.2 Analysts as agents of transparency

"Transparency" is a term that has been widely and pervasively used in debates over business governance, public policy making, and institutional design during the last two decades of the 20th century[13]. Hood (2006) has even argued that transparency has established some kind of "quasi-religious" authority and significance as a "doctrine of governance". Transparency has also been considered as an idea or an "organising principle" that guides various efforts on economic, political, and social administration, control, and reform (cf. Garsten & Lindh-de-Montoya, 2008). For instance, in the arena of corporate governance reform, together with notions of accountability, responsibility, and integrity, transparency has been frequently referred to as a guiding principle that has informed the development and formulation of detailed codes and rules of corporate governance (e.g. Cadbury, 1992; OECD, 2004b). Although the concept of transparency

[13] Hood (2006) has suggested that the notion of transparency is not an invention of the twentieth century. Instead, he identifies that "the idea of disclosure or transparency in corporate governance pre-dates the twentieth century" (ibis: 17).

has gained increasing currency, a single definition of transparency is rarely found. Instead, it has been suggested that the term "transparency" embraces many different strains and can be interpreted in heterogeneous ways depending on the context in which it is used (e.g. Garsten & Lindh-de-Montoya, 2008; Hood, 2006). However, there is a general perception that transparency is about visibility, making things visible and comparable, and ensuring that there are adequate flows of information about a certain object (e.g. Garsten & Lindh-de-Montoya, 2008; Hood, 2006). The current study endorses this particular conception of transparency. More specifically, for this thesis, "transparency" refers to the visibility of the corporate governance procedures adopted by companies, the visibility of the link between corporate governance and the financials, as well as the visibility of the category of corporate governance as a risk factor in the investment decision making process.

This thesis argues that the evaluations of the corporate governance procedures of companies performed by analysts contribute to making the governance of corporations visible in financial markets. The corporate governance evaluations undertaken by analysts constitute activities of monitoring, assessing, and evaluating which have flourished in various aspects of social and economic life. It has been suggested that these activities are often defended and justified on the ground of transparency (e.g. Garsten & Lindh-de-Montoya, 2008; Hood, 2006). However, this thesis pays more attention to the new visibility of the governance of corporations that can be created through the corporate governance evaluations undertaken by analysts due to the deployment of certain evaluative techniques by analysts. The focus here is on the form and format of visibility of the corporate governance procedures adopted by companies, rather than on whether visibility is enhanced or weakened.

A similar conception of transparency is adopted regarding the link between corporate governance and the financials, and the category of corporate governance as a risk factor in the investment decision making process. It is, again, the form and format of visibility that is the main focus here, rather than the increase or decrease in visibility. More specifically, this thesis concentrates on the form and format in which the potential link between corporate governance and the financials is transformed and rendered visible.

The thesis also attends to the way in which corporate governance as a risk factor is made visible so that it can be easily picked up and readily incorporated into investment analyses. While arguing that analysts are capable of making aspects of corporate governance (namely, the corporate governance procedures adopted by companies, the link between corporate governance and the financials, and the category of corporate governance as a risk factor) visible, or more specifically, of creating and inventing new visibility of corporate governance, this thesis further proposes that analysts can be thought of as *agents of transparency* in financial markets. The techniques and tools deployed by analysts in making corporate governance visible and transparent, can be viewed, to follow Grossman, Luque, and Muniesa (2008b: 98), as "transparency-making devices". Analysts, with the deployment of the transparency making devices, operationalise the idea of "transparency" through doing corporate governance.

3. Theoretical lenses and concepts

In order to inform the empirical investigation of these issues, this thesis draws upon some additional and related concepts. These are introduced here, although they are further elaborated upon in later chapters.

3.1 "Eventalisation" and the "arena" analysis

This thesis investigates the multiple and dispersed factors that gave rise to the doing of corporate governance by analysts in the US and the UK in the early 21st century. To capture this emphasis on the "multiple surfaces of emergence" of the corporate governance work pursued by analysts, the thesis draws upon the genealogical approach to history formulated by Michel Foucault, and particularly the notion of "eventalisation".

The genealogical approach to history focuses on the "history of the present", as opposed to the "origin of the present" sought by traditional historical analysis (e.g. Castel, 1994; Miller & Napier, 1993; Smart, 2002). Genealogy lightens "the weight of causality"

(Foucault, 1991b: 77). It analyses a phenomenon based on the multiple processes that constitute it, and reveals the complexity, fragility, and contingency surrounding the phenomenon or event in question (Foucault, 1991b: 76; Smart, 2002: 56). Such an analysis has also been termed by Foucault (1991b) "eventalisation". As Smart (2002: 58) has further explained, eventalisation "[...] aims to rediscover the complex of factors, connections, strategies and forces which precipitate the establishment of an event which in turn subsequently achieves the status of self-evidence and necessity [... and] reveals events to be a product of a multiplicity of processes and to be located in a complex field of relations". To follow and operationalise the genealogical approach and the related notion of "eventalisation", this thesis discovers the multiple processes and complex relations between various issues, events, agents, and agencies out of which the doing of corporate governance by analysts emerged.

The genealogical approach to history has been drawn upon by scholars in accounting to examine the emergence of new modes of calculation (e.g. Burchell, Clubb, & Hopwood, 1985; Mennicken, 2008; Miller, 1991; Miller & Napier, 1993; Robson, 1991, 1994). The concept of "arena" originated and further developed by these scholars has affinities with the Foucauldian genealogy, as it examines the complex interplay of heterogeneous elements that conditions the emergence of calculations. The notion of "arena" was initially developed by Burchell et al (1985) in their study of the rise of value-added accounting in the UK in the 1970s. According to Burchell et al. (1985: 390), an arena is conceptualised as a particular domain of operation that exists between certain issues, institutions, bodies of knowledge, practices, and actions. Within an arena, there exist shifting patterns of relations between the various agencies functioning in the domain, along with its associated problems and solutions (Burchell et al., 1985). In the case of the value-added "event", Burchell et al. (1985) identify three arenas that constituted the "accounting constellation" within which value-added accounting emerged in Britain in the 1970s[14].

This initial formulation of the notion of "arena" has been developed further in later studies of accounting changes, especially by Robson (1991; 1994) and Mennicken

[14] These three arenas are: the explication of standards for corporate financial reporting, the management of the national economy, and the system of industrial relations.

(2008). According to Robson (1994: 48), an accounting arena is constituted by a particular problematisation of a certain accounting technique. "Problematisation" is regarded by Robson (1994: 48) as the process through which something (e.g. an accounting technique) comes to be viewed as a significant problem. This process is often characterised by a diverse and heterogeneous group of agents and agencies pronouncing on the deficiencies or failures of exiting technique and calling for new tool to emerge (Miller & O'Leary, 1994). The problematisation of an object is often linked to wider concerns and broader objectives in the economy and society that are articulated in the form of arguments, rationales, and vocabularies deployed (Miller, 1991). In other words, the problem with a particular calculative tool is defined in relation to the social, institutional, and historical settings in which it operates, instead of being explained by reference to its ultimate function (e.g. Mennicken, 2008: 78; Robson, 1991).

The linkages and relays between the wider discourses and rationales and certain calculative technique are established through processes of translation (e.g. Mennicken, 2008; Miller, 1991; Robson, 1991). "Translation" can be conceptualised as a process which involves creating convergences, coherences, equivalences, and homologies by relating claims, concerns, and interests that were previously different (e.g. Callon, 1980; Callon & Law, 1982; Robson, 1991). Through processes of translation, particular problems and questions are offered new interpretations, allowing aspirations and ideas to be channelled in specific directions (Latour, 1987: 117; Miller, 1991: 738). This enables the problem associated with a particular calculative technique to be expressed in a way that it is consistent with wider concerns and issues in the economy and society, and that can be shared by a diverse and heterogeneous group of agents and agencies.

The process of problematisation also concerns the formulation and articulation of the proposed solution to the problem (Foucault, 1984b). Problematisation is to be understood as "the parallel emergence of problems and their solutions" (Hull, 1997: 220), and there exists a "reciprocal relationship" between the problem and the solution (Miller & O'Leary, 1993). To propose something as a solution to the problem and to persuade others that this is the solution, alliances are normally formed, and arguments are mobilised by the use of languages and discourses in a way that the interests of other

groups, parties, and organisations are reframed and restated towards a common interest (Latour, 1987: 108-121)[15]. This implies that the process through which a solution gets articulated and potentially accepted by the various organisations and institutions in the economy and society also involves processes of translation.

The notions of eventalisation and arena, together with the related concepts of problematisation and translation, inform the empirical analysis of this thesis on the emergence of the "doing" of corporate governance by analysts. Three arenas are identified for the current study, and these are investment research, the regulatory framework for sell-side financial analysts, and corporate governance[16]. These arenas constituted the multiple conditions that made possible the emergence of the corporate governance work undertaken by analysts in the US and the UK in the early 21st century. In each of the arenas identified, certain issues came to be seen as a problem (e.g. the short-term focus of traditional sell-side investment research) by a diverse and heterogeneous group of actors and agencies with originally different interests, claims, and work agendas. The problem also came to be seen as being attached to and connected with certain broader aspirations and objectives in the economy and society, such as restoring investor confidence in financial markets. The corporate governance work performed by analysts, it is argued, was perceived and articulated as a proposed solution to the specific problem identified in each arena, and considered as being able to help realise and achieve the broader aspirations, objectives, and ideals.

3.2 "Programme" and "technology"

The broader policy objectives, together with the aspirations of various actors and agents linked with the doing of corporate governance by analysts, have a programmatic nature that has been given particular attention in the "governmentality"[17] literature (e.g. Miller & Rose, 1990; Miller & Rose, 2008; Rose & Miller, 1992). According to this literature,

[15] This process is sometimes understood as "enrolment", in which the interests of others are incorporated into the solution that one suggests (Callon & Law, 1982; Robson, 1991: 552).

[16] These three arenas are delineated in detail in Chapter 2.

[17] Foucault (1991a: 102) defined "governmentality" as an "ensemble formed by the institutions, procedures, analyses and reflections, the calculations and tactics, that allow the exercise of this very specific albeit complex form of power".

a range of authorities and administrators seek to govern and act upon the actions of others, and set out these aspirations in a particular language or vocabulary that represents the domain to be governed in such a way that it is rendered amenable to government. The term "programme" refers to the "discursive nature of modes of governing, the conceptualising and imagining of the economic domain and its constituent components and associated problems as something that could be acted upon and calculated" (Miller, 2008b: 8-9). Programmes of government are ideals to be sought and aspirations to be realised (Miller & Rose, 1990; 2008). Programmes are often depicted in "government reports, White Papers, Green Papers, papers from business, trade unions, financiers, political parties, charities and academics proposing this or that scheme for dealing with this or that problem" (Miller & Rose, 1990: 4). In the context of this study, this means attending to the ideals, aspirations, and objectives through which the idea of corporate governance for the financial markets was articulated. For instance, "re-establishing the integrity of the financial services industry" and "restoring investor confidence in the capital markets" can be viewed as programmes. These aspirations and objectives were widely articulated when the technology stock bubble burst and the financial markets declined in the late 1990s, and after the downfall of Enron, WorldCom, and the other corporate giants in the early 21st century. Also, "transparency" can itself be understood as a programme. Improving the information disclosure of firms, and making particular aspects of companies visible, has become one of the key objectives to be achieved under the corporate governance reform since the early 1990s. "Transparency" has also been inscribed into different principles and codes of corporate governance to guide the formulation of the more detailed "best practices" of corporate governance (e.g. Cadbury, 1992; OECD, 2004b).

To govern, technologies of government also need to be deployed to intervene upon the objects that are the concern of the authorities. "Technologies" are defined by Miller (2008b: 9) as "the [...] devices and instruments that [make] it possible to operationalise [...] aspirations, and to act upon others [...]". As proposed by Rose and Miller (1992: 183), technologies include "techniques of notation, computation and calculation; procedures of examination and assessment; the invention of devices such as surveys and presentational forms such as tables [...]", among the others. They are more or less

material, humble, and mundane in nature, but are often attached to and linked with certain ideals and aspirations that these technologies can potentially help to achieve and realise (Miller, 2008b: 9). This implies that no matter how humble and mundane the technologies are, technologies and programmes always go hand in hand[18]. Accounting, which is one form of economic calculation, has been viewed as technology of government (e.g. Miller, 1991; Power, 1997; Robson, 1994). Accounting is often seen as being linked to various programmatic ideals and aspirations that it helps achieve and realise. For instance, the technique of discounted cash flow was called upon to help facilitate better investment decisions in the hope of achieving economic growth in Britain in the 1960s (Miller, 1991). The language of "efficiency" was central to the ambitions of standard costing to transform British enterprises in the early decades of the 20th century (Miller & O'Leary, 1987). Also, the rise of Russian auditing practices was conditioned by, and implicated in, the wider transition from a planned to a market economy in Russia after the collapse of the Soviet Union in 1991 (Mennicken, 2009).

Inscriptions have also been viewed as technologies of government (Rose & Miller, 1992). The term "inscription" was originally developed by Latour and his colleagues in social studies of science and technology (e.g. Latour, 1987; Latour & Woolgar, 1986). As paraphrased by Robson (1992: 689), inscriptions refer to "the various techniques of "marking" an object or event that is to be known – writing, recording, drawing, tabulating". Inscriptions can take the form of graphs, diagrams, photographs, equations, models, written reports, and computer programs. Inscriptions have been considered as representational devices through which a setting is transformed and represented in a new form. More specifically, by means of inscription, reality is rendered visible, measurable, comparable, calculable, and amenable to be acted upon (Rose & Miller, 1992). The information generated from processes of inscribing is not a neutral recording of what happens in the domain. Instead, it is "a way of acting upon the real [... and of] mak[ing] the domain in question susceptible to evaluation, calculation and intervention" (Rose & Miller, 1992: 185). Inscribing a realm into a form that is visible, measurable, and

[18] The formulation of the notions of "programmes" and "technologies" more or less parallels the development of the notions of "ideas", "things", and "marks" by Hacking (1992) who regards these as elements of laboratory experimentation. In particular, "ideas", which refer to the intellectual elements of an experiment, has affinities with the notion of "programmes".

comparable also facilitates and enables the formation of "centres of calculation" (Latour, 1987; see also Rose & Miller, 1992). These are the locales in which information about a domain is transported and accumulated so that certain persons or groups can be in the know about the domain, engage in certain calculations, and act upon the domain "at a distance"[19]. For the current study, the notion of "inscription" is central to informing the examination of the mechanisms and devices deployed by analysts when doing corporate governance. Inscriptions, it is suggested, relate to the narratives, tables, lists, charts, graphs, and financial and statistical models deployed by analysts in their evaluations of the corporate governance procedures of companies and in their integration of governance issues within investment analyses. The notion of "inscription" helps this thesis to make sense of the way in which the mechanisms and devices deployed by analysts have transformed and represented the governance procedures of companies, the link between corporate governance and the financials, and the category of corporate governance as a risk factor in the investment decision making process. These mechanisms and devices will be further conceptualised in this thesis as *transparency making devices*, as they can help make aspects of corporate governance known, visible, and transparent.

Like other technologies, inscriptions can be viewed as being linked to certain idealised schemata and aspirations that they can potentially help to operationalise, realise, and achieve[20]. Some scholars have even claimed that the very material, humble, and mundane techniques and tools can be viewed as being constituted by both "programmatic" and "technological" dimensions (Miller, 2008a, 2008b; Power, 1997). In his study of the "audit society", Power (1997: 6) has regarded the "programmatic" aspect as relating to "the ideas and concepts which shape the mission of the practice and which, crucially, attach the practice to the broader policy objectives which exist in the political sphere". The "technological" aspect is referred to as "the more or less concrete

[19] As suggested by Miller (1991: 738), "action at a distance" refers to "the possibility of a particular point becoming a centre with the capacity to influence other points that are distant, yet without resorting to direct intervention". This implies that with the information about a domain being transported to and accumulated at a "centre of calculation", the authority can act upon the domain from the centre based on the information available without directly encountering with the domain.

[20] For instance, as Miller and Rose (1990) note, the input-output table, which was an important component of a system of national account for post-war France, was linked to the notions of "growth", "progress", and "solidarity" that constituted the political vocabularies through which the project of modernising French society was formulated.

tasks and routines which make up the world of practitioners" (Power, 1997: 6). Miller and his colleagues (Mennicken, Miller, & Samiolo, 2008; Miller, 2008a, 2008b) further suggest that when studying economic calculation, both programmatic and technological dimensions need to be conjointly analysed, and the linkage and interplay between the two aspects attended to[21].

This conceptualisation of economic calculation as having both programmatic and technological dimensions particularly has important implications for the investigation into the integration of corporate governance within the investment analyses performed by analysts. It informs this thesis that the concrete and routine work pursued by analysts to integrate governance issues within investment analyses can be viewed as being attached to and connected with certain wider ideas and broader policy objectives. These, as will be further discussed in later part of the thesis, include the ideas related to the potential link between corporate governance and the financials, the ideal and objective of incorporating governance issues into the investment decision making process, and the perceptions of what analysts could and should do to link corporate governance to the financials. The techniques and tools deployed by analysts to integrate corporate governance within investment analyses, it is argued, can potentially be seen as making the ideas operable, and helping to realise and achieve the aspirations and objectives.

3.3 "Critic" and "carrier"

Analysts have been depicted by some economic sociologists as the "critics" of the financial markets. While the notion of "critic" has been used to study evaluations performed by analysts of the operational and financial aspects of companies, this thesis draws upon this concept to inform the examination of their corporate governance evaluations.

The notion of "critic" originates from the economic sociology literature on the cultural

[21] This conceptualisation of economic calculation differs from that of the so-called "technological turn" in economic sociology. This "technological turn" in economic sociology has tended to concentrate on the technological aspect, and largely downplay the programmatic dimension (e.g. Beunza, Hardie, & MacKenzie, 2006; Callon, 2005; Callon & Muniesa, 2005; Hardie & MacKenzie, 2007; Muniesa, Millo, & Callon, 2007).

product markets (e.g. Baumann, 2001; Becker, 1982; Glynn & Lounsbury, 2005; Hirsch, 1972; Shrum, 1991). Critics function in mediated markets[22], for which the cultural product market is an example. Critics evaluate the quality of product, which is normally uncertain, based on the aesthetic systems in a cultural field, and normally document critical reviews in written texts, such as newspapers and magazines. The aesthetic systems are generally viewed as the ideology and philosophy of justifying classification of things as "arts" (cf. Baumann, 2007)[23]. Critics are regarded as "institutional regulators of innovation" (Boskoff, 1964; Hirsch, 1972; Shrum, 1991) who endorse, facilitate, and filter cultural innovation. It has been suggested that producers of cultural products "[...] are highly responsive to feedback from institutional regulators" (Hirsch, 1972: 649). The structural characteristics of the equity stock market are similar to those of a mediated market. As Zuckerman (1999) argues, industries correspond to the product categories by which equity shares are classified, and analysts are the product critics. Also, the value of stock is uncertain so that investors face significant difficulties in stock valuation. Investors hence rely heavily on the recommendations made by analysts who evaluate the performance of companies and document the evaluation in the form of equity research reports. Like other critics, analysts are considered to be influential. For example, it has been noted that a firm will suffer from an "illegitimacy discount" in its valuation if it fails to conform to the model of how firms should be structured as perceived by analysts[24] (Zuckerman, 1999).

Critical reviews performed by critics can be viewed as activities of evaluating, scrutinising, and auditing that have flourished in various aspects of social and economic life (e.g. Djelic & Sahlin-Andersson, 2006) and contributed to the formation of the

[22] Mediated markets can also be regarded as interpersonally dis-embedded markets, in which buyers and sellers do not have direct contact with each other in market transactions. Instead, they are mediated by a third party who mobilise the actions of buyers and sellers and shape market patterns. Critics can be viewed as mediators who make markets, and who facilitate transactions in mediated markets (e.g. Zuckerman, 1999).

[23] Becker (1982) distinguishes critics from aestheticians. Aestheticians develop aesthetic systems in a cultural field (cf. Baumann, 2007), while critics apply aesthetic systems to evaluate specific art work. However, Selden (1975) argues against such a division of labour between aesthetics and criticism. According to Selden (1975), critics do not simply apply aesthetic systems, but also contribute to the development of the aesthetic systems in a cultural field.

[24] According to Zuckerman (1999), a firm which operates in more than one industry will fail to gain reviews by analysts who normally focus only on one industry, owing to confusions over the identity of the firm. As a consequence, the demand for the firm's shares tends to be depressed, and the shares are traded at a discount.

"audit society" (Power, 1997). These activities do not constitute formal laws or regulations. But, they can generate governing effects, shaping and normalising objects being assessed (Miller, 1996; Power, 1997; Wedlin, 2006). The domain being monitored and evaluated can potentially be rendered as "governable" or "auditable" objects[25] (cf. Miller & O'Leary, 1987; Miller & Rose, 1990; Power, 1996). It can be argued that the capacity of critics to function as institutional regulators and influence market transactions attributes both to the position captured by critics in mediated markets and to the governing effect that can be generated from the activities of evaluating and scrutinising that critics perform.

If aesthetics, defined as the philosophy of art, guides and informs cultural critics, the regulatory requirements of "best practices"[26] as inscribed in formal regulations of corporate governance can be seen as the guiding principle for analysts assessing the quality of the governance procedures of companies. However, laws and regulations are often ambiguous, and the meaning contained in them and the interpretation of them are not always transmitted in a straightforward manner (e.g. Edelman, Abraham, & Erlanger, 1992; Edelman & Suchman, 1997; Scott, 2003). This means that analysts, who have relatively little tradition and experience in dealing with regulatory issues related to corporate governance, may potentially interpret regulations of corporate governance in diverse ways. The concept of "carrier" helps this thesis to examine this aspect of the operationalisation of corporate governance regulations by analysts. Meanwhile, the other element that can be seen as being *carried* by analysts in their corporate governance evaluations is the information about the corporate governance procedures of companies. The concept of "carrier" can again be helpful in informing the examination of how such information has been transformed and represented by analysts.

[25] According to Power (1996), audits "make things auditable". This means that audits transform and structure individuals or organisations being audited in a way that conforms to "the need to be monitored ex-post" (Power, 1994: 7).

[26] In this thesis, the term "best practice" does not only refer to the so-called "best practice of corporate governance" set out in principles or codes of corporate governance (i.e. soft regulations/laws), such as the UK *Combined Code of Corporate Governance*, the *OECD Principles of Corporate Governance*, and the ICGN *Statement on Global Corporate Governance Principles*. It also refers to the regulatory requirements related to corporate governance that are prescribed in company law and stock market listing rules (i.e. hard laws).

Carriers[27] play significant roles in the framing, packaging, and circulating of ideas (Sahlin-Andersson & Engwall, 2002: 8). When ideas are adopted or spread, they are unpacked, transformed, edited, and reinterpreted by carriers. As Sahlin-Andersson and Engwall (2002: 23) have argued, "certain aspects of the idea may be described, passed on, or imitated, while other parts are ignored". The form, focus, content, and meaning of the original idea are subject to transformation. For Scott (2003: 879), carriers "are not neutral vehicles, but mechanisms that significantly influence the nature of the elements they transmit". As Hwang and Powell (2005) and Sahlin-Andersson and Engwall (2002) have further suggested, although carriers may not be dominant members of a given field or interested in shaping the field with regard to their own interests, their actions may to some extent challenge the dominant institutions and indirectly induce institutional change. Nevertheless, ideas are not circulated by carriers without any constraint. While labelling those who carry ideas as "editors", Sahlin-Andersson (1996) argues that there exist certain editing rules that operate mainly by implicitly restricting the process of representing and re-telling. These rules attend to the context in which the editing is made, the text which is being edited, and the recipient of the edited text (Sahlin-Andersson, 1996: 85). In this thesis, "best practices" of corporate governance contained in formal regulations are considered, to a certain extent, as constraining the understanding of various corporate governance issues by financial market participants, including analysts. Nevertheless, as will be argued in later part of this thesis, as carriers, analysts are still able to transform these "best practices" in their corporate governance evaluations, albeit perhaps only to a modest extent.

The theoretical lenses and concepts introduced above help this thesis to make sense of the doing of corporate governance by analysts, in particular, its emergence and the two aspects of it. They also inform the selection of and concentration on certain empirical materials examined in this thesis.

[27] They are also termed translators (Czarniawska & Sevon, 1996), knowledge entrepreneurs (Abrahamson & Fairchild, 2001), teachers of norms (Finnemore, 1993), editors (Sahlin-Andersson, 1996), and "others" (Meyer, 1996).

4. Empirical materials

The main empirical materials used in this thesis are the corporate governance reports written by analysts, the official documents issued by various organisations and institutions, selected financial and business newspapers and magazines, together with other documents such as textbooks of corporate governance as well as academic and practioner publications on corporate governance. These textual documents help to address the research focus and questions of this thesis highlighted in section 2 of this chapter. The selection of these texts was informed by the theoretical lenses and concepts that this thesis draws upon, including notions of critic, carrier, technology, and programme.

Analysts have been conceptualised as critics who undertake critical reviews of the relative merits of corporations, particularly with respect to corporate governance in the context of this thesis. Like other critics, analysts document their evaluations and assessments of companies in reports which institutional investors can potentially get access to. Critical reviews documented in the form of written texts have been considered as highly important materials for research that examines the work of critics. They potentially provide useful insights into the ways in which critical reviews on certain objects are performed by critics. A number of prior studies on critics have focused on these textual documents, and drawn upon them as the main empirical materials (e.g. Baumann, 2001; Beunza & Garud, 2007; Glynn & Lounsbury, 2005; Shrum, 1991). In particular, the *technologies*, namely, the mechanisms, tools, and devices deployed by critics in the critical review process are largely reflected in and can be identified from these written texts. For instance, largely based upon the film reviews available to the public in popular periodicals, Baumann (2001) identifies eight techniques[28] deployed by film critics as "critical devices" in film reviews in an attempt to demonstrate the role of film critics in the legitimation of film as an art form in the US between 1925 and 1985. Also, when studying how analysts value stocks under extreme uncertainty, Beunza and Garud (2007) formulate their grounded theory largely based upon the equity research

[28] According to Baumann (2001: 415-416), these include positive and negative commentary, naming the director, comparison of directors, comparison of films, film is interpreted, merit in failure, art versus entertainment, and too easy to enjoy.

reports written by analysts. They have even argued that these reports provide "[...] a window into the cognitive processes followed by analysts in real time" (ibis: 14).

To follow Baumann (2001) and Beunza and Garud (2007), this thesis concentrates on the corporate governance reports written by analysts in order to identify and examine the *technologies* deployed by analysts in their evaluations of the corporate governance procedures adopted by companies. These reports are also intensively drawn upon in order to investigate the tools and devices deployed by analysts in their integration of governance issues within investment analyses. To align with some recent research on analysts which has seriously attended to the work product generated by analysts, namely, their written reports (e.g. Beunza & Garud, 2007; Fogarty & Rogers, 2005)[29], this thesis focuses on the arguments made and presented by analysts in the narratives of the corporate governance reports. The current study, however, extends this research by paying special attention to the tables, lists, charts, figures, and graphs that have been created by analysts and included in their corporate governance reports. By concentrating on the narratives, tables, lists, charts, figures, and graphs, which can all be viewed as "inscriptions", the various *technologies* deployed by analysts in doing corporate governance can potentially be identified and investigated.

The concentration on the corporate governance reports produced by analysts is also informed by the concept of "carrier". As suggested by Sahlin-Andersson and Engwall (2002), as ideas are adopted and circulated, carriers present them most commonly in the form of written or oral texts. These texts provide a potentially useful source based on which researchers can investigate the way in which ideas are unpacked, elaborated upon, edited, and interpreted by carriers. In the current study, the ideas that are carried by analysts in their corporate governance evaluations are largely constituted by the regulatory requirements of corporate governance contained in stock market listing rules,

[29] As mentioned by Beunza and Garud (2007: 17-18), in the analysts ranking issued by the *Institutional Investor* magazine in 2003, investors were asked to rank in importance eight different dimensions of analyst merit: industry knowledge, written reports, special services, servicing, stock selection, earnings estimates, market making, and quality of sales force. The top two criteria, according to the result, were "written reports" and "industry knowledge". Beunza and Garud (2007: 18) argue that the arguments and ideas that analysts present in the equity research reports are more useful to investors than the brief numbers in the form of earning forecasts and price targets. This has led Beunza and Garud (2007) to concentrate on the equity research reports produced by analysts as the main empirical materials in their study.

international and national governance codes and principles, company laws, and financial regulations. The ways in which regulations of corporate governance have been operationalised, unpacked, and re-interpreted by analysts are identified in this thesis mainly from the narratives of the corporate governance reports written by analysts. Meanwhile, the other element which can be thought of as being *carried* by analysts in their governance evaluations is the information about the corporate governance procedures adopted by corporations. As suggested by the concept of "carrier", the form, format, and focus of this information can potentially be edited and transformed by analysts. By focusing on the corporate governance reports written by analysts, particularly on the various tables and lists contained in the reports, the manner in which the information about the governance procedures of companies has been summarised, compiled, and re-presented by analysts is investigated.

For this study, a total of 55 corporate governance reports produced by analysts based in the US and the UK have been collected. A majority of them (46) have been obtained from the Investext Plus database initially available from the British Library. Key words in the field of corporate governance were typed in so as to search reports specifically related to the issue of corporate governance produced by analysts on the database. These key words included "corporate governance", "governance", "board of directors", "audit committee", "remuneration committee", among others. Six reports have been obtained through personal contacts with analysts and other practioners in financial markets. Three further reports have been found on the Internet[30]. The chart in Appendix 1 shows the distribution of these reports between 2000 and 2008. These reports are all in PDF format. They were first coded sentence-by-sentence with the aim of identifying the mechanisms, tools, and devices deployed by analysts in their corporate governance evaluations and integration. The codes were then combined and incorporated into

[30] The Investext Plus database was available for access from the British Library. The British Library, however, terminated its subscription to this database in early 2009. No analyst report can be obtained from the database in the British Library since then. This thesis draws upon the corporate governance reports that were published before 2009. Although the corporate governance reports produced by analysts have been obtained from three main different sources, there are some other reports that can not be possibly reached at all. Therefore, it is practically impossible to find out the total number of the corporate governance reports written by analysts. However, it is not the purpose of this thesis to generalise how analysts do corporate governance across the whole analyst population. Instead, the availability of some of these corporate governance reports allows this thesis to examine how some analysts do corporate governance in detail.

themes. These themes were indicative of the background against which a particular corporate governance report was written, and the ways in which analysts operationalised regulations of corporate governance, facilitated comparisons of the governance procedures adopted by different companies, and combined the examination of governance issues with that of the financials in investment analyses. Tables, figures, and graphs that are included in the reports were also compared and contrasted in order to find out their similarities and differences, and the circumstances under which these representational devices were utilised by analysts.

In addition to *technologies*, this thesis also focuses on *programmes* or the *programmatic* that technologies help to make operable. For this study, programmes relate to certain ideals to be sought, and certain aspirations and objectives to be realised and achieved that are widely articulated in financial markets. Through the elaboration and deployment of a particular language or vocabulary, as previously discussed, programmes take shape within "government reports, White Papers, Green Papers, papers from business, trade unions, financiers, political parties, charities and academics [...]" (Miller & Rose, 1990: 4). The ideas, aspirations, and objectives that are discursively represented and articulated through specific languages or vocabularies can be identified from such textual documents. To identify and trace the emergence, development, and articulation of these ideas, aspirations, and objectives in financial markets, and particularly with respect to the corporate governance work performed by analysts, this thesis attends to a variety of other textual documents in addition to the corporate governance reports written by analysts. These include official documents issued by national and international governmental and non-governmental organisations, professional associations, and informal networks formed between institutional investors and asset management firms, selected financial and business newspapers and magazines, textbooks of corporate governance, and academic and practioner publications on corporate governance.

For instance, the reports issued by the United Nations Global Compact and the United Nations Environment Programme Finance Initiative are drawn upon to trace the ideas related to the importance of integrating corporate governance in the investment decision making process, and to the potential role analysts could and should play in this field.

These ideas that appeared and developed in financial markets in the early 21st century are viewed as shaping and giving significance to the concrete work performed by analysts in their attempts to link governance issues to the financials. The investigation into the dispersed factors that gave rise to the emergence of the overall phenomenon of the doing of corporate governance by analysts also draws upon official documents issued by various organisations and institutions. Based on these documents, this thesis traces how certain issues were considered as problems in relation to wider concerns and broader objectives in financial markets. For instance, the documents issued by the British Trade Union Congress, the Centre for Financial Market Integrity of the Chartered Financial Analyst Institute, the Business Roundtable Institute for Corporate Ethics, the Enhanced Analytic Initiative, and others, are drawn upon in this research to trace how the short-term focus of traditional sell-side investment research was perceived as problematic in the early 21st century in relation to the more general problem of "short-termism" in financial markets at that time. Also, as identified from some of these documents, investment research performed by analysts that considers extra-financial issues (EFIs)[31], such as corporate governance, was perceived and articulated as a proposed solution to the problem associated with the short-term focus of traditional sell-side research in particular, and to the problem of "short-termism" in financial markets in general.

The various textual documents that this thesis draws upon to study the doing of corporate governance by analysts are the primary materials on which this thesis is based. They are supplemented by materials obtained from seven semi-structured interviews. These interviews have been undertaken with two sell-side financial analysts, three corporate governance specialists on the so-called "buy-side", and two other practioners who have expertise in corporate governance, and who have regularly contributed to debates on corporate governance. Appendix 2 provides relevant information on these

[31] The Enhanced Analytics Initiative (EAI) defines "extra-financial issues" (EFIs) as "fundamentals that have the potential to impact companies' financial performance [...] or reputation in a material way, yet are generally not part of traditional fundamental analysis". Examples of EFIs include: "future political or regulatory risks, the alignment of management and board with long-term company value, the quality of human resources management, risks associated with governance structure, the environment, branding, corporate ethics and stakeholder relations". The EAI regards itself as "an international collaboration between asset owners and asset managers aimed at encouraging better investment research". For more information about the EAI, see http://www.enhanced-analytics.com.

interviews. The interviewees were mainly invited to share information on new developments in the field of corporate governance, and about sell-side research on corporate governance and other extra-financial issues. Interviewees who are not analysts were also asked for their perceptions of the corporate governance work performed by analysts. For this thesis, selected information obtained from these interviews is used to supplement and triangulate[32] (cf. Flick, 2004) the materials drawn from the various textual documents.

5. Outline of the thesis

The following three chapters address the issues that have been highlighted earlier regarding the doing of corporate governance by analysts in the US and the UK across the past decade.

Chapter 2 examines the emergence of the "doing" of corporate governance by analysts. It examines the multiple and dispersed factors that conditioned the appearance and development of the corporate governance work pursued by some analysts in the US and the UK in the early 21st century. The empirical analysis is informed by the notion of "eventalisation" under the Foucauldian genealogy in general, and by the conceptual lens of "arena" in particular. Three branches of this genealogy are charted, corresponding to the three key arenas traced in this chapter, namely investment research, the regulatory framework for sell-side financial analysts, and corporate governance. Each arena identified and traced is characterised by the complex interplay of heterogeneous elements, including rationales, discourses, institutions, practices and events, that made possible the emergence of the corporate governance work performed by analysts at a particular historical moment.

Chapter 3 concerns the first aspect of the doing of corporate governance by analysts,

[32] The triangulation here, according to Flick (2004), can be regarded as "triangulation of data". This refers to the combination of data "drawn from different sources and at different time, in different places or from different people" (ibis: 178). Flick has also identified the other three forms of triangulation, which are triangulation of theories, investigator triangulation, and methodological triangulation.

namely, the evaluations of the corporate governance procedures of companies performed by analysts. This chapter examines the ways in which such evaluations were performed by analysts, in particular the mechanisms and devices deployed by analysts. It also considers how the perceptions of companies' corporate governance procedures held by financial market participants such as institutional investors can be altered and transformed by the corporate governance evaluations that analysts performed. This chapter concentrates on the evaluations performed by analysts of the structural issues concerning the corporate board[33]. The notion of "critic" is drawn upon as a key theoretical reference point, supplemented by the concepts of "carrier" and "inscription". This chapter reports that analysts performed corporate governance evaluations by directly and explicitly benchmarking the corporate governance procedures of companies against "best practices" contained in regulations of corporate governance; and by making comparison, which comprised a mixture of narrative comparison, tabular comparison, and rankings. The chapter argues that new visibilities of the governance of corporations were created through the corporate governance evaluations undertaken by analysts.

Chapter 4 concerns the second aspect of the doing of corporate governance by analysts, namely, the linking of corporate governance to the financials. It investigates the way in which the integration of governance issues within investment analyses was explored by analysts, and what constituted this particular form of economic calculation. The empirical analysis is mainly informed by notions of the "programmatic" and "technological" aspects of calculative practices. This chapter argues that the concrete work performed by analysts to link corporate governance to the financials was shaped and animated by certain ideas, discourses, and idealised schemata articulated in financial markets. These included the idea related to the potential link between corporate governance and the financials, the ideal of incorporating governance issues in investment analyses, the perception that analysts could and should play a crucial role in linking corporate governance to the financials, among others. The tools and devices

[33] These issues include whether there is a strong balance of independent directors on the board and in board committees, whether the chairman and the CEO are separated, whether the chairman is independent, whether the full board is elected annually, whether the former CEO is still on the board, whether board vacancies that are filled by directors are elected by shareholders, among others.

deployed by analysts, as the chapter suggests, made operable these ideas and helped realise the perceived ideals and aspirations in financial markets. This chapter also argues that these tools and devices made visible the link between corporate governance and the financials, and helped articulate the category of corporate governance as a risk factor in the investment decision making process.

The last chapter, i.e. chapter 5, summarises the findings from chapters 2, 3, and 4. It considers the implications of the doing of corporate governance by analysts, particularly by further elaborating upon the key theme of this thesis, namely, the notion of analysts as *agents of transparency*. Reflections on the theoretical lenses drawn upon to inform the empirical analysis and on the use of textual documents as the main empirical materials for the thesis are then presented. This chapter, and the thesis overall, concludes by discussing the implications of the current study for future research.

Chapter 2

THE EMERGENCE OF THE DOING OF CORPORATE GOVERNANCE BY ANALYSTS: CONDITIONS OF POSSIBILITY

1. Introduction

This chapter examines the emergence of the doing of corporate governance by analysts. It examines how, and in what settings, the doing of corporate governance by some analysts appeared and developed in the US and the UK in the early 21st century. The chapter locates the emergence of the corporate governance work performed by analysts within a broad social and historical context. More specifically, it focuses on the various factors that conditioned and gave rise to the doing of corporate governance by analysts, instead of searching for the direct and proximate cause of the phenomenon. This chapter attends to the multiple locales in which the complex interplay of heterogeneous elements, including rationales, discourses, institutions, practices, and events, made it possible for the doing of corporate governance by analysts to achieve a degree of coherence and stability as an externally recognised phenomenon.

The empirical analysis in this chapter is informed by the genealogical approach to history formulated by Michel Foucault (e.g. 1984a; 1991b), and particularly the notion of "eventalisation". The Foucauldian genealogy analyses a phenomenon in accordance with the multiple processes that constitute it, and reveals the complexity, fragility, and contingency surrounding the phenomenon in question (Foucault, 1991b: 76; Smart, 2002: 56). More specifically, as informed by the notion of "eventalisation", this chapter views the emergence of the corporate governance work pursued by analysts as the outcome of a multiplicity of processes, and of a complex field of relations between various issues, events, agents, and agencies (cf. Smart, 2002: 58). This chapter specifically draws upon the concept of "arena" that has affinities with the Foucauldian genealogy, and that has been formulated and utilised by scholars in accounting to

examine the complex interplay of heterogeneous elements that conditions the emergence of new modes of calculation (e.g. Burchell et al., 1985; Mennicken, 2008; Robson, 1991, 1994). An arena, as introduced in chapter 1, is conceptualised as a particular domain of operation that exists between certain issues, institutions, bodies of knowledge, practices, and actions (Burchell et al., 1985: 390). This concept helps with the organisation of the empirical materials of this chapter, and guides the tracing of the dispersed locales in which the corporate governance work performed by some analysts in the US and the UK appeared and developed at a particular historical moment.

Robson (1991: 548) has further proposed that an arena is constituted by processes of "translation between non-accounting discourses and rationales [...] and the problematisation of particular accounting techniques". The empirical analysis of the specific arenas in this chapter is accordingly framed by the notions of "problematisation" and "translation". Problematisation is the process through which something comes to be viewed as a significant problem (ibis: 48). This chapter focuses on the processes through which a particular issue was constructed as a significant problem by a diverse and heterogeneous group of agents and agencies in financial markets in each arena. This notion also directs the attention of the present empirical analysis to the simultaneous emergence of a problem and its solution, and the processes by which a solution to the problem was proposed and articulated.

Translation is a process which involves creating convergences, coherences, equivalences, and homologies by relating claims, concerns, and interests that were previously different (e.g. Callon, 1980; Callon & Law, 1982; Robson, 1991). This concept focuses the attention of this chapter on analysing how local problems came to be seen as being attached to and linked with wider concerns and debates in financial markets, and how the originally different claims and interests of a diverse group of agents and agencies were transformed and subsequently became convergent, coherent, and equivalent. According to the concept of translation, this chapter also attends to the actions, mostly discursive in nature, taken by various parties, organisations, and institutions to promote and legitimise proposals and solutions to certain problems by translating the interests of others, and encouraging other parties, organisations, and

institutions to join their formal or informal networks.

The empirical analysis of this chapter is based upon official documents issued by various organisations and institutions, selected financial newspapers and magazines, the corporate governance reports written by analysts, as well as interview material. Three arenas are identified as providing the conditions of possibility for some analysts in the US and the UK to bring corporate governance within the boundaries of their work territory in the early 21st century. These three arenas are labelled as: investment research, the regulatory framework for sell-side financial analysts, and corporate governance[34]. What linked these three arenas together was their attention paid to the corporate governance work performed by sell-side financial analysts. These three arenas are delineated in detail in the next three sections. The final section summarises the chapter and provides some further comments.

2. Investment research

Investment research in financial markets has traditionally been undertaken in both the so-called buy-side firms, i.e. fund management firms, and the so-called sell-side firms, i.e. investment banks and brokerage houses[35]. Investment research is expected to attend to the strategy and fundamentals of corporations, provide insight into the investment potential of companies, and generate investment recommendations. From the early 21st century onward, however, investment research in both the US and the UK financial markets started to be criticised for its short-term focus. This problem tended to be more visible for research undertaken by sell-side firms, given that the results from sell-side investment research are in general more widely disseminated (e.g. Groysberg, Healy, & Chapman, 2008) .

In the UK, in a speech given in the Investor Relations Conference in 2005, John

[34] Consistent with previous studies that draw upon the conceptual lens of "arena" (e.g. Burchell et al., 1985; Mennicken, 2008; Robson, 1991, 1994), these are labels that indicate and name the specific locales or aspects of institutional life in which the phenomenon under investigation appeared and developed.
[35] Investment research is also provided by "independent" sell-side firms, which are broker-dealers that do not provide investment banking services.

Sunderland, the Chair of Cadbury Schweppes and President of the Confederation of British Industry (CBI), explicitly pointed out the short-term focus of sell-side investment research. He argued:

> "The pressure on the sell side has in my view made analysts very focused on the near term and in some instances their understanding of our business fundamentals is less than it used to be." (Sunderland, 2005 quoted in TUC, 2005)

Meanwhile, in the US, concerns about more or less the same issue were expressed by William H. Donaldson, the former Chairman of the Securities Exchange Commission (SEC):

> "Over time, analysts have become obsessed with the question of whether a company meets its quarterly EPS numbers, and not with whether a company is built to last. And because of the considerable clout of the sell-side analyst, this shift from long-term-thinking to short-term results has echoed through to company managements and to professional investors. The focus on short-term results has, I believe, had a counter-productive influence on companies, on investors and on analysts themselves." (Donaldson, 2005)

The comment made by Donaldson above appeared to suggest that the short-term focus of sell-side investment research was closely attached to the wider and more general problem of "short-termism" in the investing public. "Short-termism", in general, was referred to as the excessive focus of some participants in financial markets on short-term and quarterly earnings, while lacking attention to the strategy, fundamentals, and conventional approaches to long-term value creation (CFA & Business Roundtable, 2006). The debate over the issue of short-termism commenced in the 1980s[36] (e.g. Ashdown & Holme, 1986; Hayes & Abernathy, 1980; Hutton, 1995; Jacobs, 1991;

[36] "Short-termism" was considered as an issue for concern in both the US and the UK at least from the 1980s. Investment research did not appear to be tied to short-termism at that time. In the 1980s, short-termism in the US and the UK was considered to be largely constituted by, for instance, the "short-term horizons" of corporate managers in the way they conducted businesses and the demand for short-term returns by institutional investors in stock markets. For detailed discussions on short-termism in the last two decades of the 20th century in the US, see for instance, Hayes & Abernathy (1980), Jacobs (1991), and Porter (1992). For the case in the UK, see for example, Ashdown & Holme (1986) and Moore (1998). Short-termism that came to be viewed as salient in the early 21st century can be thought of as a sort of re-activation of the same issue from the earlier decades. The short-term focus of investment research came into the overall picture of short-termism in the early 21st century.

Moore, 1998; Porter, 1992). In parallel the significant changes in the landscape of the business world on both sides of the Atlantic in the early 21st century[37] (e.g. Tonello, 2006), the issue of short-termism was considered as salient, and attracted the attention from the investing public. The potentially negative consequences of short-termism were, once again, rehearsed by various commentators. These included: undermining market credibility, discouraging long-term value creation and investment, decreasing market efficiency, reducing investment returns, and impeding efforts to strengthen corporate governance (e.g. CFA & Business Roundtable, 2006; Samuelson & Preisser, 2006; Tonello, 2006; TUC, 2005). In addition, it was suggested that short-termism would not only harm business, but it could also negatively affect employees, the natural environment, and the wider society (e.g. Samuelson & Preisser, 2006; Tonello, 2006; TUC, 2005). As a consequence, corporate leaders, investors, financial intermediaries, governmental bodies, and other constituents of the investing public showed serious concerns about short-termism, and called for fundamental reforms to address the issue.

In the US, at a Business Roundtable corporate governance forum in 2003, the former Chairman of the SEC, William H. Donaldson, called upon business leaders

> "[... to] manage the business for long-term results and to get away from the attitude that you're managing the business out of a straight jacket that has been put upon you to create earnings per share on a regular basis."[38]

In the Chartered Financial Analysts (CFA) Institute annual conference in 2005, Donaldson further pointed out that short-termism was a critical issue faced by the financial industry at that time. Corporate leaders were well aware of the salience of

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[37] According to Tonello (2006), these changes included: the investing public recognised the need to restore credibility of financial markets and investor confidence that were undermined by the wave of corporate scandals since the early 21st century; institutional investors had taken serious steps to monitor the management of their portfolio companies by investigating the possibility of directing assets toward investment with a greater long-term focus; institutional investors had encouraged companies to set out compensation schemes based on a more balanced combination of financial and extra-financial indicators of performance; several empirical research had reported results supporting the linkage between environmental, social and corporate governance factors and improved stock prices and shareholder value; regulators, financial intermediaries and institutional investors had put strong effort to focus sell-side financial research on long-term corporate value; among others.

[38] See *The New Environment in Corporate Governance: Taking Stock and Looking Ahead*, Business Roundtable Forum on Corporate Governance (10 Sep. 2003).

short-termism, too. In a study conducted by the Business Roundtable Institute for Corporate Ethics in 2004, chief executive officers (CEOs) in many of the largest US corporations argued that the most pressing ethical issue faced by the business community was "short-term investor expectation"[39]. In July 2005, the Conference Board conducted a high-level Summit to involve leaders of major corporations and the investment community to discuss the issue of short-termism. Participants in the Summit agreed that it was "time to deal with short-termism", and their consensus regarding the issue and the possible way to address it were documented in a report, titled *Revisiting Stock Market Short-Termism* (Tonello, 2006). Also, in recognition of the magnitude and potential impact of short-termism, the CFA Centre for Financial Market Integrity and the Business Roundtable Institute for Corporate Ethics conducted a series of symposia to discuss the issue from September 2005. These symposia brought together various groups of stakeholders to study the issue of short-termism, and to seek proposals for tackling the problem. These stakeholder groups consisted of corporate leaders, asset managers, investors, and analysts. A report, titled *Breaking the Short-Term Cycle* (CFA & Business Roundtable, 2006), was published in 2006. This report summarised the discussions and recommendations made by the various participants in the symposia as to how corporate leaders, asset managers, investors, and analysts could re-focus on long-term value. Notwithstanding the distinct agendas of the CFA institute, the Business Roundtable Institute for Corporate Ethics, and the Conference Board, these organisations and institutions came to share a common view that "short-termism" was an issue of concern in the US financial markets. The interests and attentions of these organisations and institutions were channelled in a way that they all more or less regarded "short-termism" as a problem that was needed to be tackled, and for which a solution was needed (cf. Latour, 1987).

In the UK, short-termism was also perceived as problematic in the early 21st century. A diverse group of agents and agencies had expressed their concerns about the issue. Short-termism was identified as a major on-going concern for the British economy in a report jointly submitted by the Confederation of British Industry (CBI) and the Trades Union Congress (TUC) to the Chancellor regarding the productivity initiative of the

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[39] *Mapping the Terrain* survey, Business Roundtable Institute for Corporate Ethics (2004), at www.corporate-ethics.org

British government in 2001[40]. The British accountancy profession had also shown concerns about short-termism. As Charles Tilley, the Chief Executive of the Chartered Institute of Management Accountants (CIMA), commented:

> "[T]he nature of City expectations that drive the aggressive earnings game and the resulting "short-termism" is a cycle that needs to be broken."[41]

Arguments regarding the salience of short-termism also came from a different direction, namely the TUC. The TUC conducted a study on the issue of short-termism, and offered a series of recommendations in order to address and hopefully mitigate the problem. The study was documented in a report, titled *Investment Chains: Address Corporate and Investor Short-Termism* (TUC, 2005). This study argued that criticism of short-termism had been made in relation to a range of the basic components of the investment system (TUC, 2005: 18). These basic components included pension funds and their trustees, fund managers, hedge funds, and analysts. The way in which short-termism was triggered by these components of the investment chain was highlighted:

> "Pension funds and their trustees may be too concerned with relative performance over a short time period. Fund managers may be trading in and out of companies too much in response to short-term news or views. The growing use of hedge funds as part of pension funds' investment strategies may be reducing investor time horizons even further. Analysts may be taking a short-term view of a company's prospects, or losing touch with the long-term drivers of success." (TUC, 2005: 18)

Similarly, as documented in Tonello (2006), participants in the high-level Corporate/Investor Summit held by the Conference Board in July 2005 argued that short-termism was a chain composed of three major links: the corporate link, the investor link, and the financial analyst link, and that effort should come from all these market participants to tackle the problem. According to the studies conducted by the TUC and Tonello (2006), the short-term view taken by analysts in their investment research formed part of the more general problem of short-termism in financial markets.

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[40] The *UK Productivity Challenge: CBI/TUC Submission to the Productivity Review*, November 2001

[41] See http://www1.cimaglobal.com/cps/rde/xchg/SID-0AE7C4D1-3D4C873A/live/root.xsl/8961_9001.htm

Possible attempts made by financial market participants to address the short-term focus of sell-side research can be considered as consistent with the effort exerted by these participants to tackle the wider problem of short-termism. In other words, the proposed solution for addressing the short-term focus of sell-side research could also constitute a potential solution to the wider problem of short-termism in financial markets.

The concern about short-termism, however, somehow seemed to parallel the increase in institutional share ownership and the explicit recognition of socially responsible investment (SRI) as an investment philosophy by institutional investors in both the US and the UK in the late 1990s. Institutional investors, largely comprised of pension funds and insurance companies, have become an increasingly powerful part of the investing public, given the significant size of their shareholdings (e.g. Mallin, 2004). Pension funds and insurance companies are expected to be long-term investors who recognise the mutual interest between shareholders, corporations, employees, the environment, and the wider community over the long term (e.g. PIRC, 1993). Also, from the late 1990s onward, socially responsible investment started to move from a fringe activity carried out by a small number of unit trusts and mutual funds in the US and the UK to an investment approach gradually accepted by pension funds and insurance companies (Sparkes, 2002). SRI questions the conventional thinking that the main purpose of investment is to maximise short-term financial returns (Sparkes, 2002: 5), and takes into consideration non-financial factors that may have a material impact on the long-term performance of investment. The increase in institutional share ownership and the acceptance of SRI by institutional investors facilitated and contributed to the development of a long-term approach to investment. "Long-term investment", "long term financial returns", and "creating long-term value" were gradually articulated as ideas and discourses of investment among others in financial markets. These ideas and discourses related to "long-termism" achieved a certain degree of acceptance by a number of financial market participants, despite the co-existence of the issue of short-termism[42]. The short-term focus of sell-side investment

[42] It is the ideas and discourses related to "long-termism" that are emphasised here. These discourses may not inevitably correspond with what some institutional investors or fund managers actually do in practice. But, empirical evidence on long-termism has been documented in the academic literature. For instance, see Solomon & Solomon (1999).

research, however, was considered as an impediment to long-term investment:

> "[...O]ne of the obstacles to investors taking a longer-term and more rounded assessment of corporate performance [... is] the current focus of much sell-side research". (EAI, 2004)

Some institutional investors and asset managers started to call for investment research that takes a long-term view, and that provides integrated analysis of both financial and non-financial issues. As David Blood and Al Gore from Generation Investment Management argued:

> "[... A]nalysts need to take account of factors that are not routinely monetised on balance sheets – including sustainability issues – as opposed to solely focusing on short-term returns. This means analysing the implications for shareholder value of long term economic, environmental and social challenges. They include future political or regulatory risks, the alignment of management and board with long-term company value, quality of human resources management, risks associated with governance structure, the environment, restructurings/mergers and acquisitions, branding, corporate ethics and stakeholder relations." (Financial Times 2005, quoted in TUC, 2005: 39)

Others, such as Neil Dwane, Chief Investment Office Europe of RCM, also strongly argued that it was necessary for investment research providers to consider material extra-financial issues in investment research:

> "Traditional investment analysis is very well suited to short term investment but if you are trying to take a longer term view, the most informative notes are those that take the material extra-financial aspects of corporate performance into account." (EAI, 2004)

According to these remarks, investment research that takes into account extra-financial issues, such as environmental, social, and corporate governance issues, appeared to be perceived as a possible solution for addressing the problem related to the short-term focus of sell-side investment research. As previously discussed, the short-term view taken by analysts in their investment research was considered as contributing to the wider problem of short-termism in financial markets (TUC, 2005; Tonello, 2006). Attempts

made by financial market participants to address the short-term focus of sell-side research could be thought of as being potentially capable of tackling the wider problem of short-termism. Undertaking investment research that takes into consideration extra-financial issues not only can potentially correct the short-term focus of sell-side investment research. It may also help to unlock "the analyst link" (Tonello, 2006) in the investment system that had led to the problem of short-termism in general. In other words, long-term investment research appeared to serve as a proposed solution to the wider problem of short-termism in financial markets.

While a consensus on ways to integrate extra-financial criteria in investment research was not considered to exist yet (The UN Global Compact, 2004: 1), several guidelines started to be formulated by a series of industry-led initiatives. For instance, in June 2004, twenty financial institutions[43] from nine countries were invited by Kofi Annan, the former United Nations (UN) Secretary General, to develop guidelines and recommendations on how to better integrate environmental, social, and corporate governance issues in asset management, securities brokerage services, and associated investment research functions. A report, titled *Who Cares wins: Connecting Financial Markets to a Changing World* (The UN Global Compact, 2004), was issued[44]. According to this report, analysts were recommended

> "to better incorporate environmental, social and governance factors in their research where appropriate and to further develop the necessary investment know-how, models and tools in a creative and thoughtful way." (The UN Global Compact, 2004: ii)

The report also urged investors to explicitly request and reward investment research that includes extra-financial aspects, and suggested that financial institutions should introduce appropriate training and incentives systems to direct the attention of analysts to environmental, social, and corporate governance issues within investment analyses (The UN Global Compact, 2004: ii-iii). This implied that certain incentive mechanisms needed

[43] These largely comprised asset management firms, insurance companies, and investment banks.
[44] This collaborative effort of the participating financial institutions was overseen by The United Nations Global Compact. The UN Global Compact is an UN initiative which encourages corporations in the world to adopt sustainable and socially responsible policies, and to report on their implementation. For more information about The UN Global Compact, see http://www.unglobalcompact.org/.

to be created to encourage and motivate analysts to provide investment research that covers both financial and extra-financial issues (EFIs). Largely for this purpose, the Enhanced Analytics Initiative (EAI) was founded by four European fund management firms in late 2004[45]. As an international collaboration between asset owners and asset managers, the participating members of the initiative agreed to allocate a minimum of 5% of their broker commissions to sell-side firms based on how well analysts integrate analysis of extra-financial issues and intangibles. While referring extra-financial issues to issues including corporate governance, human capital management, value creation or destruction during mergers and acquisitions, or global environmental challenges such as climate change, this initiative aimed to "change the way the broker community analyses extra-financial issues and intangibles" (EAI, 2004). With the 5% broker commissions from these asset owners and managers, sell-side analysts were expected to be financially incentivised to engage in long-term investment analysis.

The EAI was an informal network formed by some asset owners and managers to facilitate long-term investment research, and to promote "long-term value" in the investing public. Since its establishment, the founding members sought to enhance the impact of the initiative, and to obtain greater support from a larger number of asset owners and managers. They attempted to enrol other institutional investors and fund management firms into their network. As the Chief Investment Officer of one of the founding members of EAI, Roderick Munsters of PGGM (The Netherlands), argued:

> "EAI is confident that the quality and coverage of extra-financial issues will improve considerably in the near future but we know this depends on additional clients sending a clear signal to brokers about what they want. The most effective way for funds and their managers

[45] The four founding members of the EAI were: BNP Paribas Asset Management, PGGM, RCM (including dbi / dit | Allianz Dresdner Global Investors), and Universities Superannuation Scheme. Until December 2008, this Initiative represented total assets under management of €2 trillion (US$2.8 trillion) and had 30 members. From December 2008, the EAI joined forces with the United Nations Principles of Responsible Investment (UN PRI). The EAI perceived this step as allowing it "to internationalise and extend the call for EFI research, with the benefit of PRI's global reach and broad signatory base" (see http://www.enhancedanalytics.com/portal/Library/Documents/EAI/NEWS/en_LIB04792.pdf). The PRI extended the work of the EAI, and launched "the PRI Enhanced Research Portal". This is "the first global, non-commercial database, dedicated to showcasing investment research which focuses on environmental, social and governance (ESG) issues and provides enhanced analysis to asset managers and owners" (see http://www.enhancedanalytics.com/portal/Library/Documents/EAI/NEWS/en_LIB05334.pdf; and http://www.unpri.org/research/index.php).

to do this is to join EAI." (EAI, 2005a)

In August 2005, The Global Compact, the Federal Department of Foreign Affairs Switzerland, and the International Finance Corporation co-organised a conference that aimed to assess the progress made since the implementation of the recommendations set out in an earlier report, titled *Who Cares wins: Connecting Financial Markets to a Changing World* (The UN Global Compact, 2004). Participating financial institutions in the conference noted that the EAI had already generated impacts on the financial markets with its clear incentive mechanism applied to sell-side financial analysts (The UN Global Compact, 2005: 10). One indication of this was that the number of sell-side investment analyses focusing on extra-financial issues notably increased (EAI, 2006). Nevertheless, it was still suggested by the conference participants that the EAI, "needs to grow in order to make a difference [to investment research]" (The UN Global Compact, 2005: 10).

Other industry initiatives were also established since the publication of the report titled *Who Cares wins: Connecting Financial Markets to a Changing World* (The UN Global Compact, 2004). The most notable one was the Principles for Responsible Investment (PRI), which was initiated by the UN Secretary General and developed by a group of the largest institutional investors in the world. The Principles were issued in April 2006 after a few meetings between investors and experts from the investment industry, inter-governmental and governmental organizations, civil society, and academia[46]. These Principles aimed to provide a framework to assist institutional investors in dealing with ESG issues. Signatories[47] that had joined the PRI were highly recommended and required to "[...a]sk investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors [i.e. environmental, social, and corporate governance factors] into evolving research and analysis"[48]. The PRI did not seek to provide financial incentive for sell-side analysts to undertake extra-financial research. Nevertheless, the PRI was developed more or less in

[46] The whole process was coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact.
[47] So far, the PRI has a total of 821 signatories. These include 209 asset owners, 446 investment managers, and 166 professional service partners. For more details, see http://www.unpri.org/signatories/.
[48] See http://www.unpri.org/principles/, in particular Principle 1.

the same direction as the EAI, in that these two initiatives imposed some sort of pressure on sell-side analysts, and pressed analysts to adopt a long-term view in their research activities.

To sum up, sell-side investment research was criticised for its short-term focus. This issue was linked to the wider perceived problem of short-termism in financial markets that became salient once again in the early 21st century. Corporate leaders, investors, financial intermediaries, governmental bodies, and other constituents of the investing public showed serious concerns about short-termism, and called for fundamental reforms to tackle the problem. In parallel, due to the increasing growth in the size of institutional ownership and the recognition of SRI as an investment philosophy by institutional investors, "long-termism" was gradually articulated as an investment idea and discourse in financial markets in the early 21st century. Long term investment research, which includes research on corporate governance issues, and which has been strongly called for by an increasing number of asset owners and managers, was perceived to be a potential solution to the short-term focus of sell-side research in particular, and to the wider problem of short-termism in general. In short, the emergence of the problem of short-termism in general, and of the short-term focus of sell-side investment research in particular, the articulation of the investment ideas and discourses related to "long-termism" in financial markets, and the increasing demand for long-term investment research, together, made the incorporation of corporate governance by sell-side financial analysts into the boundaries of their work territory possible.

3. The regulatory framework for sell-side financial analysts

As compared to lawyers and accountants, sell-side financial analysts had been subject to limited regulation since the securities analyst profession started to gain recognition in the early 1990s (e.g. Coffee, 2006). However, from the early 21st century onward, sell-side financial analysts were subject to increasing regulatory scrutiny. This was triggered by the issue of analyst conflicts of interest, induced by the way in which sell-side research was traditionally organised and analysts rewarded.

Sell-side research was traditionally undertaken under the roof of large broker-dealer firms. From the late 1990s, criticism of the analyst business model in place began to come from diverse perspectives. A heterogeneous group of agents and agencies in the investing public considered the way in which sell-side research was organised as problematic. For instance:

> "Their [sell-side financial analysts'] primary job is to track companies in an industry. But increasingly, they are involved in investment banking activities, like taking companies public and arranging mergers – lines of business that generate big fees for their employers [...] because of their numerous duties, they are pressed for time to do fundamental research on individual companies." (Abelson, 1996)

And also:

> "Investors felt they were not getting the type of unbiased advice that they wanted [from sell-side research]." (Sallie Krawcheck in Gilpin, 2002)

Hunt and Williams (2003) from McKinsey & Company even claimed that:

> "For reasons that go well beyond the legal and reputation issues, the research business is fundamentally sick."

Central to these criticisms, and the wider debate about how sell-side research should be organised and rewarded, was the issue of analyst conflicts of interest. This issue originated from the system of indirect payment to analysts. Traditionally, sell-side research largely depended on subsidies from other departments of the same broker-dealer firm to fund their research. Before 1975, the brokerage division of the broker-dealer firm took care of the cost of sell-side research out of the brokerage commissions that sell-side research helped generate, primarily from institutional investors. However, when fixed brokerage commissions were abolished and brokerage commissions started to be subject to competition in 1975, the profit centre of a contemporary large broker-dealer firm shifted away from brokerage to investment banking (Coffee, 2006: 251). Incentives appeared that could potentially induce analysts to seek to attract investment

banking business by producing biased research, and by inflating the earnings estimate of the client companies that the broker-dealer firm had investment banking business with. Analysts were required to report to investment banking personnel, and their compensation was, to a large extent, closely tied to the investment banking fees that they helped generate. Meanwhile, the brokerage firm found it useful from a marketing standpoint to have popular, high-profile, and "star" analysts employed by the firm. These analysts were expected to be capable of capturing a bigger share of those lucrative investment banking fees (Coffee, 2006: 246; Morgenson, 2002). Conflicts of interest arising from these developments risked compromising the potential independence of analysts[49], and resulted in sell-side research that was depicted as exhibiting "a lack of depth, a lack of objectivity and a lack of exclusivity" (Bodow, 2001).

The issue of analyst conflicts of interest in general, and of investment banking conflicts in particular, was even more strongly perceived as problematic when the technology stock bubble burst and the financial markets declined in the late 1990s, and after the downfall of Enron, WorldCom, and other corporate giants in the early 21st century (FSA, 2002a; Morgenson, 2002; Richards, 2002). The stock market crash, and the outbreak of a series of corporate failures, drove down investor confidence in financial markets. Re-establishing the integrity of the financial services industry, and restoring investor confidence in securities markets, became a key policy objective for the Securities Exchange Commission (SEC) (e.g. Donaldson, 2003b). The way in which sell-side research was organised, which had been seen as problematic, was viewed as partially contributing to the loss of investor confidence due to the issue of analyst conflicts of interest (e.g. Donaldson, 2003b; Nazarethi, 2003). As Annette L. Nazarethi, Director of the Division of Market Regulation of the SEC put it:

> "Over the past year or two, there has been the steady stream of revelations concerning alleged conflicts of interest that have compromised the integrity of the financial services industry. And the detrimental activity rooted in these conflicts has occurred [...] across a broad array of areas, including accounting and auditing, corporate governance, ***sell-side research***, investment banking, and more recently, the mutual fund arena and SRO governance." (Nazarethi,

[49] Other types of analyst conflicts of interest were also identified. For detail of these, see for instance, Coffee (2006: 249-253)

2003) [Emphasis added by Z. Tan]

The task of investigating analyst conflicts of interest, and reforming the way in which sell-side research was organised and rewarded, was consistent with the policy agenda for re-establishing the integrity of the financial services industry, and restoring investor confidence in financial markets (cf. Latour, 1987). This applied equally to the situation in the UK. As Gay Huey Evans, director of the Markets and Exchanges Division of the Financial Services Authority (FSA), commented:

> "[... T]o preserve confidence in the integrity of the UK's financial markets, the standards applied to investment research [...] should be higher than they have been in the past." (FSA, 2003d)

The solutions put forward by the SEC and the FSA for transforming the way in which sell-side research was organised were, of course, regulatory in nature. The SEC began examining analyst conflicts of interest in summer 1999 with its Division of Market Regulation reviewing industry practices regarding disclosure of analyst conflicts of interest. In the same year, the Office of Compliance Inspections and Examinations (OCIE) of the SEC conducted examinations focusing on financial interests of analysts in companies that analysts covered. Investigations were also undertaken into analyst compensation arrangements and reporting structures, particularly whether analysts reported to investment banking personnel. In fall 2001, the SEC called upon the National Association of Securities Dealers (NASD) and the New York Stock Exchange (NYSE) to work together to craft new rules in an attempt to address analyst conflicts of interest subsequent to the prior investigations solely undertaken by the SEC. After receiving public comments on the proposed new rules, the SEC approved the rule amendments in May 2002. These rules were designed to close a number of regulatory gaps, and to promote greater independence of research analysts (SEC, 2002). After the outbreak of corporate scandals, such as Enron, the Sarbanes-Oxley Act (US-Congress, 2002) was enacted. The Act directed the SEC to re-formulate the rules approved in 2002. In July 2003, the SEC published a second set of proposed rule changes filed by the NYSE and the NASD as a way to further tackle the issue of analyst conflicts of interest (SEC, 2003c).

Actions were also taken by other regulatory bodies in the US to address the issue of analyst conflicts of interest. The most notable event was the investigation led by the former New York Attorney General (NYAG), Eliot Spitzer, into ten Wall Street firms and two individual analysts. These firms and individuals were shown to have engaged in serious misrepresentations in their research reports and investment recommendations made to the investing public. The investment bank that firstly featured in this investigation was Merrill Lynch & Co. Inc[50]. It was noted that the initial investigation was not commenced with an explicit concern with analysts in general, or with those at Merrill Lynch in particular in mind. Instead, the investigation commenced with a general suspicion about the veracity of the advisories of investment bankers at Merrill Lynch (Ignatius, 2002). This investigation led Eliot Spitzer to launch an expedition into the internal records of Merrill. Spitzer came across an e-mail that suggested that analysts at Merrill had downgraded an Internet company, GoTo.com, which did not give Merrill investment banking business. Spitzer then decided to examine all those internal emails of Merrill, and undertook a breakthrough investigation into the sell-side research of this firm (Ignatius, 2002).

A series of settlements was proposed by Spitzer, and agreed by Merrill. The agreement that had the most knock-on effect on Merrill was the requirement "to separate completely the evaluation and determination of compensation for equity research analysts from [its] investment banking business" (OAG, 2002c). Spitzer also intended to use the settlement with Merrill as a possible catalyst to pursue broader structural reform in the securities industry in collaboration with the SEC and the other regulatory authorities (OAG, 2002b). The SEC had been addressing analyst conflicts of interest by calling upon the NASD and the NYSE to craft new rules, which happened at a similar time as Spitzer investigated Merrill. However, Spitzer argued that the new regulations proposed by the SEC, the NASD, and the NYSE failed to induce structural changes, even though they made progress regarding disclosure obligations (OAG, 2002b). Spitzer urged the US Congress to consider national reform modeled on the agreement his office

[50] According to the Office of the New York State Attorney General (OAG), one analyst at Merrill Lynch made highly disparaging remarks about the management of an Internet company, and called the stock of this company "a piece of junk". However, he gave the company, which was a major investment banking client, the highest stock rating (OAG, 2002a).

had reached with Merrill Lynch (OAG, 2002d). It was further suggested by Spitzer that the SEC must impose new nationwide rules to regulate analysts, and to prevent the sort of abuses his office had discovered in the Merrill case (OAG, 2002e).

In October 2002, the SEC, the NYAG, the NYSE, the NASD, and the North American Securities Administrators Association announced a joint effort to bring to a speedy and coordinated conclusion the various investigations concerning research analysts. This eventually led to "a historic settlement-in-principle" with Wall Street brokerage firms to resolve the issue of analyst conflicts of interest. This settlement, which was the so-called *Global Analyst Research Settlement* (SEC, 2003a), proposed certain structural reforms on brokerage firms[51]. These included: firms have to separate research and investment banking, investment bankers cannot evaluate analysts, the compensation of analysts cannot be based directly or indirectly upon investment banking revenues or input from investment banking personnel, and instead, it will be based in significant part on the quality and accuracy of their research. The joint announcement of the settlement reflected the ever-increasing salience of the issue of analyst conflicts of interest in the market place and the immediate necessity to formulate a solution for addressing the problem. As the catalyst for these proposed structural reforms pertaining to sell-side analysts, Spitzer commented on the settlement:

> "The settlement [...] implements far-reaching reforms that will radically change behavior on Wall Street. It is the fulfillment of a promise [... that] was to restore integrity to the marketplace, and just as important, to restore investor confidence in Wall Street." (OAG, 28/04/2003)

According to the remark made by Spitzer above, the programme and policy agenda for re-establishing integrity of the financial services industry and restoring investor confidence in the US securities markets was partially re-interpreted as a call for reforms on the way in which sell-side research was organised (cf. Mennicken, 2008; Miller, 1991; Robson, 1991). The settlement constituted a solution, which was regulatory in nature, to the problem associated with the analyst business model. The settlement also came to be perceived as a proposed solution to the problem that the US capital markets

[51] See http://www.sec.gov/news/speech/factsheet.htm.

encountered in the early 21st century, one that was characterised by a lack of trust and integrity.

Considering the salience of the issue of analyst conflicts of interest and being influenced by the investigation into this issue in the US, the FSA in Britain had also kept a closer eye on sell-side research since 2002 (FSA, 2002b). The FSA initially published a discussion paper considering whether changes should be made to the approach to regulating investment research in the UK in July 2002 (FSA, 2002b). It put forward three options for discussion: no change to the current requirements, new rules, and a completely new approach of which some research reports would be clearly labelled as advice, promotion, or marketing material (see FSA, 2002a). After a series of consultations and clarifications (FSA, 2003a), the FSA issued new proposals for brokerage firms to consider how analyst conflicts of interest could and should be managed in October 2003 (FSA, 2003b). These proposals were finally published in March 2004 after further consultation (FSA, 2004a). According to the new proposals which were largely principles-based, all regulated brokerage firms which issue investment research were required to publish a policy explaining how they manage conflicts of interests in their business (FSA, 2003d). Such a policy had to meet a key standard that analysts should not be involved in any activity that could conflict with their ability to produce objective research (FSA, 2003d). Although the regulatory approach adopted by the FSA was not exactly the same as that adopted in the US, the new regulation imposed by the FSA, like the *Global Analyst Research Settlement* (SEC, 2003a), constituted a potential solution to the problem associated with the analyst business model – an issue that was argued as having undermined investor confidence with the integrity of the UK financial markets (FSA, 2003c, 2003d, 2004b).

However, the regulatory solution for addressing analyst conflicts of interest and reforming the way in which sell-side research was organised not only caused new problems, but also created threat and uncertainty to sell-side analysts[52]. One potential issue arising from the *Global Analyst Research Settlement* (SEC, 2003a) was the question who would subsidise sell-side research, given that such research was

[52] This was expressed by a Responsible Investment Director of an investment and fund management firm during an interview that the author of this thesis conducted in London on 31/10/2008.

henceforth required to be separated from investment banking (Coffee, 2006: 267). The contribution made by analysts to the profitability of the broker-dealer firm in terms of brokerage commissions was traditionally very modest. As Coffee (2006: 267) argued, the broker-dealer firm would reduce its investment in securities research by cutting back both on analyst compensation and employment, if the cost of the research department could not be justified by its return. In practice, after the adoption of the Global Settlement, there were significant reductions both in the size of sell-side research departments and in the number of companies covered by analysts (Davis, 2004). The supply of sell-side research seemed to have been squeezed. However, the demand for it, especially that performed by the "star analysts", did not weaken (Coffee, 2006). Instead, "more relevant, more original and better-targeted", and "innovative" sell-side research was, and is still highly sought after by a large number of institutional investors and fund managers (e.g. EAI, 2004; Hunt & Williams, 2003). Hunt and Williams (2003) even pointed out that:

> "[...D]eveloping more relevant and objective research at lower cost is [...] a financial imperative [for sell-side research]."

While arguing that traditional sell-side research provided "little value", investment research that considers environmental, social, and corporate governance (ESG) criteria came to be viewed as more relevant and innovative[53], and hence more valuable (EAI, 2004). A number of institutional investors and fund managers created informal networks, with the aim of encouraging and motivating sell-side analysts to perform innovative and valuable investment research. One of the most notable industry-led networks was the Enhanced Analytics Initiative (EAI). Members of the EAI agreed to allocate 5% of their broker commissions to broker-deal firms on the basis of how well analysts integrate analysis of material extra-financial issues into mainstream investment research. When this initiative was initially established, its members had already shown their awareness of the broader economic and regulatory environment that had been influencing the way in which sell-side research was organised at that time. According to the EAI:

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[53] For instance, the Institutional Investors Group on Climate Change (IIGCC) and the UNEP-FI Asset Management Working Group, which have been voicing for incorporating ESG issues into mainstream investment analyses, viewed this kind of investment research as innovative, and had requested brokers to deliver it (EAI, 2004).

> "[... T]his timely initiative [i.e. the EAI] coincides with the growing move by brokers to adapt their business model following regulatory changes, legal events and clearer demands from customers." (EAI, 2004)

Dr. Raj Thamotheram, former Chair of the Steering Committee of the EAI and senior advisor to Universities Superannuation Scheme (USS), further highlighted the demand from members of the EAI for investment research on extra-financial issues. He suggested:

> "Good analysts much prefer doing interesting and intellectually challenging work than the repetitive, mechanistic commentary on last quarters figures [...] at a time when the analyst business model is being squeezed by regulatory attention and moves to unbundling – succinctly captured by the McKinsey report titled "more relevant research at lower cost" – EAI represents a clear statement by a growing pool of international clients who are clear about what they are happy to pay for!" (Thamotheram, 2005)

The 5% brokerage commissions which were set aside by members of the EAI in order to reward the best investment research on extra-financial issues would be relatively small, when compared to the part of the investment banking fees that analysts used to receive as part of their financial rewards before the enactment of regulations, such as the *Global Analyst Research Settlement* (SEC, 2003a). However, the 5% brokerage commissions were supposed to be used as a "pragmatic incentive to enable brokers to produce more rounded, more useful research" (Peter Moon, quoted in EAI, 2004). They could also, although to a modest extent only, become part of the funding available for financing and subsidising sell-side research[54]. The increasing demand from institutional investors and fund managers for more relevant, innovative, and useful sell-side investment research, and particularly the establishment of the EAI, came "at a very timely occasion"[55] when the analyst business model was subject to regulatory scrutiny and its reform viewed increasingly as necessary. Performing research on EFIs or ESG issues, where corporate

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[54] As previously discussed, the original level of funding available to sell-side research would be scarce. This was because the compensation of analyst was required to be disconnected directly or indirectly from investment banking revenues under the new regulations.
[55] See "What is EAI?" on the EAI website: www.enhancedanalytics.com.

governance is an important element, and incorporating them into mainstream investment analyses, provided a step forward, if not yet a definite solution, for the on-going reform of the analyst business model. Undertaking ESG research offered a new opportunity for broker-dealer firms, which were faced with problems, threat, and uncertainty after the series of regulatory reforms on sell-side research, to consider adapting and transforming the analyst business model, and to re-conceptualise the way in which sell-side research could and should be performed.

In sum, sell-side financial analysts were subject to increasing regulatory scrutiny from the early 21st century. This was largely the result of the increasing salience of the issue of analyst conflicts of interest that was considered as contributing to the loss of trust and integrity in both the US and the UK financial markets at that time. Regulators in both countries formulated and enacted new regulations in an attempt to provide a regulatory solution to the problems associated with the analyst business model in particular, and for addressing the perceived lack of trust and integrity in financial markets generally. The series of regulatory reforms pertaining to sell-side research was considered as causing new problems, and creating threat and uncertainty for analysts. Nevertheless, these reforms happened to coincide with a moment when the demand for "innovative", "more relevant", and "more valuable" investment research by a large number of institutional investors and fund managers was consistently high, and when informal networks (e.g. the EAI) started to be established among some asset owners and managers to encourage and support sell-side analysis of extra-financial issues. Performing extra-financial investment research, which was considered as "more valuable", constituted a possible step forward for brokerage firms to further adapt the analyst business model, and to potentially transform the way in which sell-side research was organised and conducted.

4. Corporate governance

The issue of what has become known as corporate governance[56] was inherent in the

[56] Corporate governance can be conceptualised as possessing both programmatic (normative) and technological (operational) dimensions (cf. Miller, 2008a, 2008b; Power, 1997). The former relates to the concepts that shape and envision broader policy objectives related to corporate governance, while the

operation of corporate forms of organisations (Ocasio & Joseph, 2005; Tricker, 2000). However, it was argued that the term "corporate governance" emerged only in the 1970s (Ocasio & Joseph, 2005), and its usage became more frequent from the late 1980s (Keasey et al., 2005a; Mallin, 2004; Tricker, 2000). It was during the 1990s and the first few years of the 21st century that corporate governance became an institutionalised field of activity (Ocasio & Joseph, 2005). It can also be argued that during this period, corporate governance came to be viewed as a problem, and became to be subject to various forms of scrutiny, intervention, and reform.

"Corporate governance" was first made visible as an issue in the UK in the late 1980s. This was triggered by the combination of the harsh economic climate, concern about standards of financial reporting as heightened by corporate scandals such as Bank of Credit and Commerce International (BCCI) and Maxwell, and the controversy over the compensation of company directors at that time (Cadbury, 1992; Mallin, 2004). The Financial Reporting Council, the London Stock Exchange, and the accountancy profession established the Committee on the Financial Aspects of Corporate Governance in May 1991 in an attempt to tackle the issue and put forward an agenda for reforming the British corporate system. The committee issued a report, known as the *Cadbury Report* (1992), in which the notion of "corporate governance" was inscribed into formal policy document for the first time. This report proposed a code of best practice of corporate governance that had significantly influenced the subsequent development of many corporate governance codes and guidelines in the UK and globally (e.g. Mallin, 2004; Solomon & Solomon, 2004). This report not only viewed corporate governance as concerning the accountability of company management towards shareholders. Corporate governance was also considered as linked to wider issues and concerns of the economy, such as the confidence of investors in the UK financial market, Britain's competitiveness position in the global economy, and the working of the market economy in general. For instance, when describing the background of the report, the Committee on the Financial Aspects of Corporate Governance argued that:

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latter refers to the more or less concrete tasks and routines that make up the world of practitioners, such as analysts. This section focuses on the programmatic aspect of corporate governance. It examines the articulation of ideas and discourses related to corporate governance and corporate governance reforms, as well as the process through which corporate governance came to be viewed as a problem.

> "The country's economy depends on the drive and efficiency of its companies. Thus the effectiveness with which their boards discharge their responsibilities determines Britain's competitive position. [...] Bringing greater clarity to the respective responsibilities of directors, shareholders and auditors will also strengthen trust in the corporate system. Companies whose standards of corporate governance are high are the more likely to gain the confidence of investors and support for the development of their businesses." (Cadbury, 1992)

Further reforms on corporate governance in Britain in the 1990s followed the Cadbury code. Additional policy documents were published, including the *Greenbury Report*[57] (Greenbury, 1995) and the *Hampel Report*[58] (Hampel, 1998). The recommendations set out in the Cadbury, Greenbury, and Hampel reports were consolidated and incorporated into the *Combined Code* (FRC, 1998). The *Combined Code* outlined a mandatory disclosure framework which provided guidance to companies on the reporting of compliance or non-compliance with the code in their annual reports. In addition, in March 1998, the UK Department of Trade and Industry launched a long-term fundamental review of core company law. The review focused on several key aspects of corporate governance, including the duties and liabilities of directors and auditors, shareholder rights, and corporate reporting and disclosure. All together, these reforms reflected and reinforced the belief and perception that corporate governance as a problem in the British economy was needed to be tackled, and subject to a certain degree of regulatory intervention.

Meanwhile, in the US, corporate governance was also considered as a salient issue. As the former SEC Chairman Arthur Levitt claimed:

> "Corporate governance is no longer an academic discussion. It is not an arcane topic for high-minded legal debate. Nor is it a dusty, little-used flowchart in a vacant boardroom. [...] It is absolutely imperative

[57] The *Greenbury Report* was published in response to the concern about the size of the remuneration packages of company directors and the disclosure of this issue in the annual reports of companies.

[58] In response to further significant corporate failures, such as the Barings Bank, the Committee on Corporate Governance was formed in 1995. This committee developed the *Hampel Report*. This report focused on disclosure of the corporate governance procedures adopted by companies. It emphasised a "principle-based" and voluntary approach to corporate governance rather than an explicit "rules-based" approach in order to reduce the regulatory burden on corporations, and to prevent "box-ticking" by companies.

> that a corporate governance ethic emerge and envelop all market participants: issuers, auditors, rating agencies, directors, underwriters, and exchanges." (Levitt, 1999)

Corporate governance was also put onto the agenda for intervention, scrutiny, and reform in the US. There, it was the private sector, especially institutional investors and corporations themselves, that took the lead and initiated reforms. For instance, the Business Roundtable, which is an influential association of chief executives in the US, had started to address issues related to corporate governance since the 1990s. It issued a *Statement of Corporate Governance* (Business-Roundtable, 1997), which set out its recommendations on the functions, structure, and operations of the board, and on shareholder meetings. Also, while considering the potentially higher financial return that may result from more pro-active engagement with the corporate board and the management team, the California Public Employees Retirement System (CalPERS), one of the largest public pension funds in the US, developed a set of principles of corporate governance. These principles were considered by the CalPERS as the minimum corporate governance standards that all markets throughout the world should strive to comply with (CalPERS, 1999). In addition, policy documents on corporate governance were issued by other organisations in the US in the late 1990s. These organizations included the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), General Motors, National Association of Corporate Directors (NACD), among others (e.g. Solomon & Solomon, 2004). These organisations and institutions no doubt each had their own objectives and agendas. Nevertheless, since the late 1990s, they had been voicing similar views on the issue of corporate governance, and had come to share a common view that the governing of corporate conduct in the US needed to be strengthened and reformed (cf. Latour, 1987).

Corporate governance also became an object of concern at the transnational level. This occurred, in particular, after the outbreak of the Asian financial crisis in 1997. The Organisation for Economic Co-Operation and Development (OECD) was called upon by the OECD Council to develop a set of corporate governance standards and guidelines, in collaboration with national governments, other international organisations, and the private sector. The OECD *Principles of Corporate Governance* (OECD, 1999) was

published in 1999. The *Principles* was supposed to serve as a "reference point" and an "international benchmark" for national governments, stock exchanges, investors, corporations, and other stakeholders to develop corporate governance standards and practices. The OECD viewed corporate governance as "one key element in improving economic efficiency", and argued that "adherence to good corporate governance practices will help improve the confidence of [...] investors" (OECD, 1999). The *Principles* was endorsed by the International Corporate Governance Network (ICGN). The ICGN is an informal network that offers a forum for investors, companies, financial intermediaries, academics, and other parties to debate corporate governance issues, and advance the governance reform agenda. The ICGN regarded the governance profile of a company as "an essential factor that investors take into consideration when deciding how to allocate their investment capital" (ICGN, 1999). A *Statement on Global Corporate Governance Principles* (ICGN, 1999) was issued by the ICGN in an attempt to offer guidance to corporations on the implementation of the OECD *Principles of Corporate Governance.* The World Bank also set out its views on the issue of corporate governance, and published a report, titled *Corporate Governance: A Framework for Implementation* (World-Bank, 2000), in 2000. As commented by Sir Adrian Cadbury in the foreword to the report, the issue of corporate governance was put "firmly onto the world stage" by the World Bank with the publication of this report. The World Bank, "for the first time", consolidated a framework of corporate governance that "encompasses the widely differing regimes, political, economic, and social, within which corporations carry on their activities around the world" (World-Bank, 2000: v).

Despite this increased scrutiny of corporate governance processes, the scandals and failures continued. The outbreak of a series of corporate scandals in different geographical jurisdictions of the world in the first few years of the 21st century, such as Enron, WorldCom, Global Crossing, and Parmalat, further increased the visibility and salience of the issue of corporate governance. A diverse and heterogeneous group of agents and agencies in the US financial markets continued to view corporate governance as problematic. It was considered that fundamental reforms on corporate governance were necessary, and the agenda for reforming corporate governance needed further articulation and advancement. As the former SEC Chairman William Donaldson put it:

> "If significant steps are not taken to revisit and remodel corporate governance practices, corporate America will continue to attract the anger and animosity not only of disillusioned shareholders, but also of a much broader cross-section of American society." (Donaldson, 2003a)

As a direct response to the continuing corporate failures, the US Congress passed the *Sarbanes-Oxley Act* (US-Congress, 2002). Former SEC Chairman William Donaldson regarded the *Act* as "[a] necessary and understandable response to an unprecedented string of corporate scandals which were rooted in intolerable governance, accounting and audit failures" (cited in Clarke, 2007: 18). Self-regulatory organisations, such as the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD), were requested by the SEC to review their listing standards, with an emphasis on all the corporate governance listing standards (SEC, 2003b). Revised and new listing rules on corporate governance were approved by the SEC and issued by both the NYSE and the NASD in 2003. The Business Roundtable also acknowledged the "notable exceptions [i.e. the corporate scandals] to a system that has generally worked well [i.e. the perceived sound US corporate governance, financial reporting, and securities markets systems]". It issued its *Principles of Corporate Governance* (Business-Roundtable, 2002) in order "to guide the continual advancement of corporate governance practices, and so advance the ability of U.S. public corporations to compete, create jobs, and generate economic growth".

The corporate failures in the early 21st century also led to further governance reforms in the UK. The publications of the *Higgs Report*[59] (Higgs, 2003) and the *Smith Report*[60] (Smith, 2003) were considered as responding to those corporate scandals that broke out in the early 21st century (e.g. Solomon & Solomon, 2004: 11). As stated in the *Higgs Report*, the review formed "part of a systematic re-appraisal [...] of the adequacy of corporate governance arrangements in the wake of recent corporate failures" (Higgs, 2003). The *Smith Report* (2003) also indicated that "[t]he Government's request to the

[59] This report examined the role, independence, and recruitment of non-executive directors.

[60] This report offered guidance to corporate boards in companies to assist them "in making suitable arrangements for their audit committees, and to assist directors serving on audit committees in carrying out their role" (Smith, 2003).

FRC to develop guidance on audit committees has of course its root in the dramatic corporate failures in the United States in early 2002". In 2003, a revised *Combined Code* (FRC, 2003) was issued to replace the one initially issued in 1998. This revised *Combined Code* incorporated the recommendations set out in the *Higgs Report* and the *Smith Report.*

Corporate governance reforms at national level paralleled the re-assessment of the corporate governance standards and guidelines that some international organisations initially developed. In 2002, in order to ensure that the *Principles* would continue to meet evolving challenges, the OECD Ministers called for a survey of the development and assessment of the OECD *Principles of Corporate Governance* (OECD, 2004a). In a report which documented the survey, the OECD (2004a) pointed out that "[p]ublic concern with corporate governance issues has been driven in recent years primarily by a series of corporate scandals and failures in a number of countries [... and i]mmediate pressures on policy arise from corporate scandals and large failures [...]". Upon completion of this survey, the OECD issued its new *Principles of Corporate Governance* in 2004. Corporate governance continued to be considered by the OECD as linked to certain wider concerns and broader policy objectives. For instance, the implication of corporate governance to economic growth was highlighted in the OECD survey report mentioned earlier. The OECD stated that "the objective to promote growth is focusing attention on corporate governance" (OECD, 2004a). In the new *Principles*, the OECD suggested that good corporate governance can potentially contribute to "financial market stability, investment and economic growth" (OECD, 2004b). It was further emphasised by the OECD that "[c]orporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence [...] that is necessary for the proper functioning of a market economy" (OECD, 2004b).

In short, corporate governance was perceived as problematic by national and international governmental and non-governmental bodies, institutional investors, corporations, and professional associations in the US, the UK, and globally from the early 1990s. The idea that corporate governance needed to be scrutinised and transformed was widely articulated both nationally and transnationally. "Better

governance", and improving standards of corporate governance, became a key aspiration for regulators, institutional investors, corporations, and other actors in financial markets. These financial market participants all had their own distinct objectives and ambitions. Yet their interests and concerns came to be aligned so that they came to share a common goal of advancing the agenda for improving standards of corporate governance (cf. Latour, 1987). The widely articulated view that corporate governance was problematic and in need of reform was also acknowledged and endorsed by some sell-side financial analysts. This was clearly indicated in the corporate governance reports that these analysts had produced. For instance:

> "Given the intensified focus on corporate governance, we think that investors who keep a close eye could attain an edge, which is why we have revisited this data [i.e. the Corporate Governance Quotient scores as issued by the Institutional Shareholder Services] today." (Sims & Hoch, 2003: 1)

> "We believe the importance of corporate governance issues is growing. In the aftermath of a spate of accounting scandals, corporate governance is growing as an important investment consideration." (Dally, 2003: 1)

and

> "With corporate governance issues continuing to emerge in the business world today (in the wake of scandals at companies such as Enron, WorldCom, Global Crossing, and Tyco) [...], we have decided to take yet another look at the quality of these practices [i.e. corporate governance practices] at our companies." (Sims, Hoch, & Tsai, 2004: 1)

According to these remarks made by analysts, the widely articulated view that corporate governance was problematic and in need of scrutiny informed and gave significance to the concrete routines and tasks that analysts performed in their corporate governance work (cf. Miller, 2008a; Miller & Rose, 1990; Power, 1997). In other words, the articulation of the idea that corporate governance was problematic and in need of reform made it possible for the corporate governance work pursued by analysts to emerge and develop.

Furthermore, sell-side financial analysts came to be regarded as a subset of the significant counterparts and stakeholders of corporations (e.g. Cadbury, 2006; Engwall, 2006; World-Bank, 2000). The potential role that these significant counterparts and stakeholders of corporations could play in corporate governance had been emphasised in the report issued by the World Bank, titled *Corporate Governance: A Framework for Implementation* (World-Bank, 2000). The framework outlined by the World Bank proposed that modern corporations were governed by both internal and external factors. Internal factors defined the relationship among key players (such as shareholders, board of directors, and management) in corporations. External factors referred to legal, regulatory, and market institutions that governed corporate behaviour. External factors were constituted by "reputational agents", including accountants, lawyers, crediting firms, investment bankers, financial media, investment advisors, investment and corporate governance analysts, self-regulating bodies, and civic society. These external factors can potentially "reduce information asymmetry, improve monitoring of the firms, and shed light on opportunistic behaviour" (World-Bank, 2000: 5). Some of these counterparts and stakeholders of corporations, including analysts, auditors, lawyers, and credit rating firms, were also thought of as "gatekeepers" of financial markets (e.g. Coffee, 2006; Fuchita & Litan, 2006; Healy & Palepu, 2003). Regardless of how they were labelled, according to the framework outlined by the World Bank, the significant counterparts and stakeholders of corporations were accorded a potentially important role in governing corporate conduct. They were considered as being capable of imposing a sort of normative pressure on companies, scrutinising corporate behaviour, and contributing to the advancement of the agenda for improving corporate governance. The work pursued by gatekeepers on corporate governance can be seen as constituting a possible solution for addressing the problem of corporate governance.

Sir Adrian Cadbury, who, as noted above, had written a foreword for the World Bank report, expressed a similar view elsewhere:

> "There are four main players on the governance stage that have the power and the responsibility to raise confidence in the corporate system. They are the regulators, the corporations themselves, those

> who invest in them whether as shareholders or as lenders, and those broader constituencies that have the ability to influence corporate behaviour. [...] Those broader constituencies are made up of those who contribute to the corporate debate and who influence the expectations of a whole range of investors. It includes the media in all its forms, financial advisers, ***analysts*** and commentators, financial institutions, and the body politic." (Cadbury, 2006: 37 - 38) [Emphasis added by Z. Tan]

These claims set out what gatekeepers and other significant counterparts and stakeholders of corporations could or should do in order to scrutinise corporate conduct and contribute to the governance reform agenda. Like the widely promulgated idea that corporate governance needed to be improved, these rationales also animated and gave significance to the concrete and routine work on corporate governance performed by gatekeepers, including that performed by analysts (cf. Miller, 2008a; Miller & Rose, 1990; Power, 1997). In turn, the corporate governance work performed by these analysts can be thought of as providing a possible solution for addressing the problem of corporate governance, and as helping achieve the objective of reforming the corporate system. As Charles Elson, a law professor and director of the Centre for Corporate Governance at Alfred Lerner College of Business and Economics at the University of Delaware, commented on the corporate governance work undertaken by some sell-side financial analysts:

> "The more attention that is paid [by sell-side financial analysts to corporate governance] the more reforms you'll continue to see." (Cited in Sweeney, 2004)

To sum up, corporate governance was perceived as problematic in the US, the UK, and globally during the 1990s and in the first few years of the 21st century. Pursuing fundamental reforms on corporate governance was considered as an important agenda by various actors in financial markets, including regulators, institutional investors, corporations, financial institutions, and professional associations. "Better governance", and improving standards of corporate governance, were proposed as the objective that financial markets participants sought to achieve and realise. These aspirations, it is argued, conditioned the emergence and development of the corporate governance work undertaken by some sell-side financial analysts. Reciprocally, analysts, as the so-called

"gatekeepers" in the corporate system, were viewed as having significant roles to play in governing corporate life, and contributing to the advancement of the agenda for reforming corporate governance. Together, these mutually reinforcing pressures helped place the issue of corporate governance firmly in the public sphere in the early 21st century.

5. Discussion

This chapter has examined how some sell-side financial analysts in the US and the UK started to bring corporate governance within the boundaries of their work territory in the early 21st century. It has drawn upon the notion of "eventalisation" and the concept of "arena" to offer a genealogy of this phenomenon. Three branches of this genealogy have been charted, corresponding to the three key arenas traced in this chapter, namely investment research, the regulatory framework for sell-side financial analysts, and corporate governance. These three aspects of institutional life are not understood as mutually exclusive, nor as the direct causes of the emergence of the doing of corporate governance by analysts. Instead, they provided the multiple and dispersed conditions of possibility under which the doing of corporate governance by some analysts in the US and the UK emerged in the early 21st century. A range of factors, not just immediate concern about corporate governance, contributed to the incorporation of corporate governance into the work territory of analysts. The emergence of the doing of corporate governance by these analysts cannot be understood without reference to the complex interplay of heterogeneous elements, including rationales, discourses, institutions, practices, and events[61], involved in making the corporate governance work performed by analysts possible. In particular, a multiplicity of different actors and agencies, such as

[61] As previously delineated, rationales and discourses related to, for instance, "long-termism", "creating long-term value", "re-establishing the integrity of the financial services industry", "restoring investor confidence", among others; institutions included the SEC, the FSA, the OECD, the World Bank, among others; practices included, for example, the allocation by those assets owners and managers that had joined the EAI of a minimum of 5% of their broker commissions to sell-side firms based on how well analysts integrate analysis of extra-financial issues; processes included, for instance, the formulation and enactment of corporate governance rules, guidelines, and codes in the US, the UK, and globally after the outbreak of the corporate scandals in the early 21st century; and events included, for example, the investigation led by the former New York Attorney General (NYAG) Eliot Spitzer into ten Wall Street firms and two individual sell-side analysts to look into the issue of analyst conflicts of interest in 2002.

state agencies, international governmental and non-governmental organisations, professional groups, corporations, institutional investors, and financial institutions, significantly contributed to the process through which the corporate governance work pursued by analysts appeared and developed.

In line with the other studies that draw upon the analytical concept of "arena", each of the three arenas delineated in this chapter has its own objects of concern, modes of operation, and shifting patterns of relations between various agents and agencies (cf. Miller & Napier, 1993: 643). For this chapter, the first arena concerns the short-term focus of sell-side investment research that was attached to the wider issue of short-termism in financial markets; the second arena attends to the analyst business model and the regulatory framework for sell-side financial analysts; and the third arena focuses on the articulation of corporate governance as a problem, and the associated agenda for reforming corporate governance. What linked these three arenas together into a "loosely functioning ensemble" (Miller & Napier, 1993: 643), "constellation" (Burchell et al., 1985), or "complex" (Miller, 1986)[62], was their attention paid to the corporate governance work performed by sell-side financial analysts. In addition, the three arenas can also be seen as being linked with each other by the overlapping nature of the issues that they were concerned with. For instance, the problem of short-termism was seen as hindering the effort to strengthen corporate governance[63]. Also, the issue of analyst conflicts of interest, which helped make the analyst business model appear as problematic, was considered as an issue under the agenda for broader corporate governance reform (e.g. IOSCO, 2003; OECD, 2004b). This chapter has examined the dynamics of each arena as if it were self-contained, yet the overall concern with the doing of corporate governance allows us to see how an alignment emerged over time among these initially distinct issues and concerns.

The findings of this chapter may have potential implications for institutional, sociological, and historical studies of corporate governance (e.g. Davis, 2005; Fellman, Kuusterä, & Vaara, 2008; Fiss, 2008). Sell-side financial analysts have been regarded as

[62] The ensemble of heterogeneous elements is also conceptualised as an "assemblage" elsewhere (e.g. Collier & Ong, 2005; Miller, 1997; Miller & O'Leary, 1994).
[63] See http://www.charteredaccountants.com.au/news_releases_2007/may_2007/A119060038

important "boundary-spanning and evaluating audiences for corporations" in the corporate system (Fiss, 2008). They have also constituted an institution of corporate governance that can potentially determine what companies can do and how control over corporations can be exercised (Davis, 2005). However, institutional and sociological studies of corporate governance have so far paid relatively little attention to the dynamics of institutions of corporate governance, i.e. how these institutions emerge, operate, change, and spread beyond their original purposes (e.g. Davis, 2005). This chapter has shed some new light on this issue by concentrating on the *emergence* of the corporate governance work undertaken by one important component of corporate governance, namely, sell-side financial analysts. In particular, this emergence was historically contingent upon and situated in a complex interplay of rationales, discourses, institutions, practices, processes, and events. The phenomenon that this thesis focuses on, namely, the doing of corporate governance by some analysts in the US and the UK across the past decade, had its historical trajectory, and emerged in relation to dispersed social, institutional, and historical contingencies.

Lastly, this chapter has specifically attended to the wider ideas, discourses, and aspirations that the techniques, tools, and instruments pertaining to corporate governance came to be attached to. For instance, the chapter has considered the articulation of "long-term investment", "long term financial returns", and "creating long-term value" as investment ideas and discourses among others in financial markets in the early 21st century. These ideas and discourses can be argued as forming part of the "programmes" that animated and gave significance to the "technologies" that made "long-termism" operable (cf. Miller & Rose, 1990; Power, 1997). Investment research that takes into account environmental, social, and corporate governance issues performed by sell-side financial analysts can be seen as one of these technologies. This conceptualisation of the linkage between technologies and the wider rationales and concerns that the technologies connect with also underlies the examination of the two aspects of the doing of corporate governance by analysts in the next two chapters. In chapter 3, the mechanisms and devices deployed by analysts in their evaluations of the corporate governance procedures of companies are viewed as potentially making operable a particular programme of corporate governance reform, one that places

"transparency" in a central position. In chapter 4, the integration of corporate governance within the investment analyses performed by analysts, as an emerging form of economic calculation, is examined.

Chapter 3

EVALUATING CORPORATE GOVERNANCE: MECHANISMS AND DEVICES

1. Introduction

This chapter concentrates on the first aspect of the doing of corporate governance by analysts, namely, the evaluations undertaken by analysts of the corporate governance procedures adopted by companies. More specifically, it examines the ways in which analysts benchmarked the corporate governance procedures of companies against formal regulations, and how comparisons of the governance procedures adopted by different companies were undertaken and facilitated by analysts. This chapter also considers how the perceptions of companies' corporate governance procedures held by financial market participants such as institutional investors can be altered and transformed by the corporate governance evaluations that analysts performed.

Rather than considering the whole spectrum of corporate governance, structural issues concerning the corporate board are specifically looked at in order to generate insights into the ways in which corporate governance evaluations were undertaken by analysts. The structural issues concerning the corporate board that this chapter focuses on are informed by some widely disseminated and articulated corporate governance rules, principles, and guidelines, such as the *New York Stock Exchange Corporate Governance Rules* (2003), the UK *Combined Code of Corporate Governance* (2003), and the *OECD Principles of Corporate Governance* (OECD, 2004b). These issues include: whether there is a strong balance of independent directors on the board and in board committees, whether the chairman and the CEO are separated, whether the chairman is independent, whether the full board is elected annually, whether the former CEO is still on the board, and whether board vacancies that are filled by directors are elected by shareholders, among other issues.

To inform the empirical analysis of the chapter, the notion of "critic" from economic sociology (e.g. Beunza & Garud, 2007; Glynn & Lounsbury, 2005; Hirsch, 1972; Zuckerman, 1999) is drawn upon as the key theoretical reference point. As some economic sociologists have initially conceptualised, critics evaluate the quality of products based on the aesthetic systems in a cultural field (e.g. Baumann, 2001; Becker, 1982; Glynn & Lounsbury, 2005; Hirsch, 1972; Shrum, 1991). This concept has recently been adapted and employed by other economic sociologists to study the financial analysis work performed by sell-side financial analysts that is evaluative in nature (e.g. Beunza & Garud, 2007; Zuckerman, 1999). However, most extant literature on critics has tended to focus on the impact of critical reviews on the objects being evaluated (e.g. Glynn & Lounsbury, 2005; Hirsch, 1972; Shrum, 1991; Zuckerman, 1999), or on the institutional environment that shapes the critical review process (e.g. Glynn & Lounsbury, 2005; Janssen, 1997; Rees, 1989). Little is known about how critical reviews are performed in general, and about what mechanisms, tools, and devices are deployed by critics in particular (except e.g. Baumann, 2001; Beunza & Garud, 2007)[64]. This chapter specifically attends to the mechanisms and devices created and deployed by analysts in measuring, classifying, and representing the corporate governance procedures adopted by companies. The notion of "inscription" from the social studies of science and technology literature (e.g. Latour, 1987; Latour & Woolgar, 1986; Robson, 1992) is drawn upon in this chapter to make sense of how the mechanisms and devices deployed by analysts can alter and transform the way in which the corporate governance procedures adopted by companies were originally perceived.

In the corporate governance evaluations performed by analysts, the regulatory requirements contained in formal regulations of corporate governance can be viewed as the guiding principle for analysts assessing the quality of the corporate governance procedures adopted by companies. To understand how regulations of corporate

[64] Baumann (2001) identifies eight techniques that film critics drew upon in film reviews in the US between 1925 and 1985. These techniques include positive and negative commentary, naming the director, comparison of directors, comparison of films, film is interpreted, merit in failure, art versus entertainment, and too easy to enjoy (ibis. 415 – 416). Beunza and Garud (2007) suggest that analysts, as frame-makers, develop calculative frames – categorisations, analogies, and key dimensions of metric – when valuing corporations under extreme uncertainty. These frames constitute the interpretive devices that provide analysts with a framework for calculations and for formulating investment recommendations.

governance were operationalised, unpacked, and re-interpreted by analysts in their corporate governance evaluations, the concept of "carrier" from neo-institutional theory (e.g. Sahlin-Andersson & Engwall, 2002; Scott, 2003) is helpful. Prior research has suggested that the legal profession shapes and transforms the regulatory elements when laws and regulations are being operationalised (e.g. Edelman et al., 1992). This chapter expands this line of enquiry by examining a case in which analysts, who have relatively little experience in dealing with regulatory issues concerning corporate governance, unpacked and sought to make sense of new regulations and new regulatory arguments related to the governance aspect of companies. Meanwhile, the other element that can be seen as being *carried* by analysts in their corporate governance evaluations was the information about the corporate governance procedures of companies. The concept of "carrier" is again helpful to make sense of the manner in which the form, focus, and content of corporate governance information was edited and transformed by analysts.

The empirical analysis of this chapter is based upon the corporate governance reports produced by some analysts in the US and the UK. The chapter finds that analysts performed evaluations of corporate governance by directly and explicitly benchmarking the corporate governance procedures of companies against "best practices"[65] contained in corporate governance regulations; and by making comparison, which comprised a mixture of narrative comparison, tabular comparison, and rankings. This chapter views these as the mechanisms and devices deployed by analysts in their corporate governance evaluations. The benchmarking performed by analysts can be thought of as the *checking of checking*, where the governance systems of companies were monitored, audited, and scrutinised by a third party, in this case analysts. As critics, and in their capacity of "institutional regulators" (cf. Boskoff, 1964; Hirsch, 1972; Shrum, 1991), analysts can potentially monitor compliance with "best practices" of corporate governance by companies. In the comparative evaluations, analysts represented the corporate governance procedures of companies in new forms (e.g. in tabular forms), and created new visibilities of the governance of corporations. This chapter suggests that analysts

[65] As already mentioned in the introduction of this thesis, the term "best practice" does not only refer to the so-called "best practice of corporate governance" set out in principles or codes of corporate governance (i.e. soft regulations/laws). It also refers to the regulatory requirements related to corporate governance that are prescribed in company law and stock market listing rules (i.e. hard laws).

contributed to one particular agenda for corporate governance reform, one that places "transparency" in a central position (cf. Hood & Heald, 2006). The mechanisms and devices that analysts deployed in their corporate governance evaluations can be viewed, in some sense, as *transparency making devices*, which created a kind of visibility (Grossman, Luque, & Muniesa, 2008a: 98). The governance procedures of companies were represented and transformed by the mechanisms and devices into a form that they could be further examined and assessed by participants in financial markets (e.g. institutional investors) ex-post the corporate governance evaluations performed by analysts.

The rest of the chapter is structured as follows. The next section presents a brief overview of the corporate governance assessments undertaken by a notable subset of parties external to companies, namely, corporate governance rating organisations, that commenced in the early 21st century. It suggests that the corporate governance evaluations performed by analysts, which also began from the early 21st century or so, differed from those undertaken by the rating organisations. The chapter then concentrates on the evaluative work on corporate governance undertaken by analysts. In particular, the mechanisms and devices deployed by analysts are examined in detail in sections 3 and 4. The final section summarises the chapter and provides some further comments.

2. Corporate governance assessments

As discussed in chapter 2, corporate governance was perceived as problematic in the US, the UK, and globally during the 1990s and in the first few years of the 21st century. Pursuing fundamental reforms on corporate governance was considered as an important agenda by various actors in financial markets, including regulators, institutional investors, corporations, financial institutions, and professional associations. Formal regulations of corporate governance were continuously revised, formulated, and enacted as an attempt to strengthen the governing of corporate behaviour, and to impose a sort of coercive pressure on companies (cf. DiMaggio & Powell, 1983; Scott, 2001). From the

early 21st century onward, activities of evaluating, monitoring, and checking the corporate governance procedures adopted by companies also emerged and gradually flourished. Activities of this kind have been argued as being able to impose normative pressure on objects being evaluated, and constituting new modes of governance[66] (cf. Djelic & Sahlin-Andersson, 2006; Wedlin, 2006). Activities of evaluating and monitoring the corporate governance procedures of companies have been undertaken by agents and agencies that are supposedly external to and independent of the companies being evaluated and monitored. As outlined by Epstein and Roy (2006), these agents and agencies include corporate governance rating agencies (e.g. The GovernanceMetrics International), shareholders' rights advocate organisations (e.g. Institutional Shareholder Services[67], The Corporate Library), credit rating agencies (e.g. Standard & Poor's[68], Moody's), and shareholder and investor advisory groups (e.g. Deminor Rating, David Global Advisors). These agents and agencies construct and issue corporate governance ratings or scores as the final products of their activities of evaluating and monitoring the corporate governance procedures of companies. These agents and agencies can all be termed corporate governance rating organisations.

Corporate governance rating or scoring as a way of evaluating and assessing the corporate governance procedures of companies was considered, to a large extent, as being inspired by demands of institutional investors for quick and simple way of measuring the quality of the governance of companies (Solomon, 2007). Using the scores generated by these rating organisations, the corporate governance procedures adopted by different companies can be compared across markets and national boundaries as well as over time. However, not all aspects of the corporate governance practices adopted by companies can be captured by the governance scores. Only some key aspects of corporate governance were identified and considered by rating organisations in the rating processes. Broadly speaking, these included: board structure and processes, executive compensation, level of disclosure, and shareholder rights and

[66] According to Djelic and Sahlin-Andersson (2006), new modes of governance include contractual arrangements, standards, rankings and monitoring frameworks which tend to be less coercive in nature as compared to the more traditional coercive regulations imposed by the state. However, the state has now increasingly made use of these new modes of governance (e.g. Hood, Scott, James, Jones, & Travers, 1999).

[67] The Institutional Shareholder Services (ISS) was acquired by RiskMetrics Group in January 2007.

[68] Standard & Poor's stopped issuing corporate governance scores from September 2005. Management and corporate governance issues, however, have long been factored into its credit rating process.

takeover defenses (Epstein & Roy, 2006: 175). While constructing the overall Corporate Governance Quotient (CGQ) score for companies, the Institutional Shareholder Services also issued Corporate Governance Quotient Sub-Scores for four dimensions of corporate governance, namely, board issues, takeover defences, audit, and compensation/ownership. Also, in addition to generating the overall corporate governance score, Standard & Poor's issued sub-scores for four corporate governance components. These were: ownership structure and external influences; shareholder rights and stakeholder relations; transparency, disclosure and audit; and board structure and effectiveness. The selection of these key aspects of corporate governance and of the detailed criteria in each aspect were mostly informed by various existing corporate governance rules, principles, and codes. These included international corporate governance principles and guidelines issued by, for instance, the Organisation for Economic Co-Operation and Development (OECD), the International Corporate Governance Network (ICGN), and the World Bank; national codes of corporate governance, such as the UK *Cadbury Report* (1992); national stock market listing requirements; and other guidelines issued by recognised pension funds and insurance companies, such as the California Public Employees Retirement System (Brown, 2004; Epstein & Roy, 2006; Solomon, 2007), among others. These standards and codes of corporate governance constituted the guiding principles adopted by rating organisations to select and formulate criteria for their ratings.

Nevertheless, the process through which regulations of corporate governance were elaborated upon, and the way in which regulatory requirements were translated into rating criteria, was not revealed or disclosed by rating organisations in a systematic manner. Different ways of unpacking and interpreting regulations of corporate governance in the rating process may potentially lead to inconsistent ratings issued by different rating organisations to the same company. This issue was widely criticised by users of the ratings, including institutional investors and corporations themselves (e.g. Epstein & Roy, 2006). Also, as previously mentioned, institutional investors may make use of the scores to compare the corporate governance procedures adopted by different companies, given that corporate governance rating was perceived to be a quick and simple way of measuring the quality of the governance of companies (cf. Solomon, 2007). However, each rating report issued by rating organisations generally tended to

focus on one single company[69]. In order to effectively compare the corporate governance procedures adopted by different companies, institutional investors need to get access to more than one rating report, collect relevant information from each report, and put the information together so as to make comparison possible.

The corporate governance evaluations performed by analysts can be seen as adding to the activities of assessing, monitoring, and checking the corporate governance procedures of companies in financial markets. Although analysts made use of the input provided by corporate governance rating organisations, as this chapter will consider later, the corporate governance evaluations undertaken by analysts differed from those performed by rating organisations in at least two respects. First, analysts produced reports that documented the corporate governance evaluations they performed. The way in which analysts unpacked the regulatory requirements contained in formal regulations of corporate governance, and the circumstances under which analysts proposed alternative or additional "best practices" of corporate governance, can be identified from these reports. Second, these corporate governance reports also revealed that information about the corporate governance procedures of companies was represented by analysts in a form that comparison of the governance procedures of companies in the same industry or across the market can be readily facilitated. These and other features of the corporate governance evaluations undertaken by analysts are examined in detail in the following two sections.

3. Direct benchmarking of the corporate governance procedures of companies against "best practices"

Corporate governance practices and principles are specified by a variety of regulatory bodies and codes, including stock market listing rules, international and national governance codes, company laws, and financial regulations. These can be viewed as imposing a sort of coercive pressure on companies (cf. DiMaggio & Powell, 1983; Scott, 2001). Principles and standards of corporate governance have typically been

[69] For a sample rating report issued by the GovernanceMetrics International, see http://www.gmiratings.com/Images/SampleReport.PDF.

adhered to and endorsed, at least publicly, by constituents of the investment public, including analysts who frequently made references to them in the evaluations of the governance procedures adopted by corporations. In particular, analysts benchmarked the corporate governance procedures adopted by companies directly and explicitly against the requirements set out in formal corporate governance regulations, and monitored compliance by companies with these regulatory requirements. This was clearly indicated by analysts when they set out the objective of their governance evaluations in the corporate governance reports they produced. For instance:

> "Throughout this report, we cite relevant new rules and data illustrating how well the companies in our coverage universe now comply with the new rules [in this case, the NYSE Corporate Governance Rules]." (Devine, Walsh, & Hunt, 2003: 5)

and

> "We analyse three different aspects related to the board of directors. First is board composition, and how each of the companies stack up against new requirements [as set out in the *NYSE Corporate Governance Rules*] that the majority of the board be independent." (Dally, 2003: 2)

The *NYSE Corporate Governance Rules* (2003) was often explicitly referred to by analysts based in the US. It was stated in Rule 1 of the *NYSE Corporate Governance Rules* that "listed companies must have a majority of independent directors" (NYSE, 2003). Consistent with the concept of aesthetic systems in the "critic" lens, this requirement can be viewed as part of an ideal of what a good board should possess. Analysts benchmarked the board practices adopted by companies directly and explicitly against the criterion that "listed companies must have a majority of independent directors". For example, in the evaluation of the board practice adopted by Walt Disney, Krutick, Han, and Zraick (2004: 2) put it:

> "Disney's independent directors now number 8 of the 11 board positions, representing 73% of the board, higher than the NYSE requirement of a majority of independent outsiders while also using stricter definitions."

Analysts also explicitly drew upon the idea of director independence, as contained in the *NYSE Corporate Governance Rules* (2003), in order to evaluate the extent to which certain corporate board members were independent. For instance, when evaluating the independence of the board members in Caremark Rx, Veiel, and Perry (2002: 18) pointed out:

> "Under newly implemented NYSE rules, "for a director to be deemed 'independent', the board must affirmatively determine the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company)." We note that two Board members may be deemed insiders when applying this rule. Mr. Piccolo still draws a consulting fee from the company of approximately $540,000 per year. Moreover, because Mr. Brown's firm provided legal services to Caremark, he may be considered an insider under the new rules as well."

In Britain, the *Combined Code of Corporate Governance* (2003) is the most widely endorsed piece of corporate governance regulation for financial markets. When assessing the composition of audit committees in UK life insurance companies, the *Combined Code* was explicitly drawn upon as the benchmark. As Walker (2008: 6) stated:

> "[...] when looking at the composition of audit committees [in life insurance companies in Britain] it is clear that [... these] committees tend on average to have only one recognised audit committee expert with relevant financial experience as stipulated under the Combined Code."

Compliance with the *Combined Code* (2003) is, in fact, a regulatory requirement for companies listed on the London Stock Exchange, just as compliance with the *NYSE Corporate Governance Rules* (2003) is a requirement for companies listed on the New York Stock Exchange. Despite the different jurisdictions, listed companies are expected to frequently self-evaluate the corporate governance procedures they adopt against these rules and principles. The corporate governance evaluations performed by analysts essentially constituted a further layer of checking on the quality of the corporate

governance systems of companies. This can be regarded as the *checking of checking*[70] or *double checking* where the corporate governance procedures of companies were monitored, audited, and scrutinised by a third party, in this case analysts. As previously discussed, critical reviews as activities of monitoring, evaluating, and auditing can impose a sort of normative pressure on objects being reviewed, and can have governing effects (cf. Scott, 2001, 2003; Wedlin, 2006). Here, by *double checking* the governance of companies against "best practices" set out in formal regulations, analysts can be viewed as acting as critics of the corporate governance procedures adopted by companies. As critics, and in their capacity of "institutional regulators" (e.g. Boskoff, 1964; Hirsch, 1972; Shrum, 1991), analysts can be viewed as possessing the capacity of monitoring compliance with existing "best practices" of corporate governance by companies. Formal regulations of corporate governance may impose a sort of coercive pressure on companies (cf. DiMaggio & Powell, 1983; Scott, 2001). The benchmarking of the corporate governance procedures of companies against "best practices" performed by analysts can be thought of as imposing a sort of normative pressure on corporate boards. This normative pressure can potentially lead companies to adopt corporate governance procedures that are at least in line with minimum regulatory requirements.

At times, when conducting their corporate governance evaluations, analysts did not explicitly identify a specific piece of formal regulation. Nevertheless, the criterion and standard employed by analysts to inform the evaluations were consistent with those "best practices" contained in formal regulations of corporate governance[71]. For instance, as Krutick et al. (2004) described:

> "We look favorably on a manageable size (between 6 – 15), composed largely of non-insiders, with a split between the chairman and CEO roles. Compensation and nominating committees should be comprised of independent board members, and regularly scheduled board

[70] The notion of *checking of checking* here is somehow similar to the notion of "control of control" for audit (Power, 1994, 1997), to the extent that both terms address the activities of monitoring, assessing, and scrutinising organisational practices and performances undertaken by a third party. "Control of control" assures the quality of the control systems, instead of the quality of first order operations (Power, 1994). The objects that analysts were checking, however, were the corporate governance procedures adopted by companies.

[71] There may be a possibility that analysts did refer to a specific piece of corporate governance regulation as the benchmark in the evaluations, but they did not explicitly point out which regulation they drew upon in the corporate governance report.

> meetings should occur in the absence of the CEO. Term limits or required retirement ages for board members are also considered to be good policies." (Krutick et al., 2004: 2)

Although Krutick et al. (2004) did not explicitly refer to any specific corporate governance code or regulation, the recommendations they set out above were consistent with those "best practices" contained in the *NYSE Corporate Governance Rules* (2003). This suggests that these "best practices" may have been widely articulated, endorsed, and accepted by constituents of the investment community, including analysts. "Best practices" of corporate governance contained in formal regulations did not only correspond to the regulative pillars of institutions[72] (Scott, 2001, 2003). They can also be thought of as culturally cognitive elements (Scott, 2001, 2003), i.e. common conceptions and beliefs, that had been accepted and shared by stock market participants, including analysts. These "best practices" constituted part of the "institutionalised myths" related to corporate governance that had informed the understanding of corporate governance issues by market participants, and enabled actions towards governing corporate conduct to be taken (cf. Glynn & Lounsbury, 2005; Lounsbury, 2008; Lounsbury & Crumley, 2007; Meyer & Rowan, 1977). Nevertheless, "best practices" of corporate governance as common conceptions and beliefs may essentially set the boundary, and to a certain extent constrain the understanding of corporate governance issues by participants in financial markets. These "best practices" contained in regulations of corporate governance may become part of the so-called "editing rules" (Sahlin-Andersson, 1996). These "editing rules" can potentially shape and frame the way in which ideas of corporate governance were unpacked, elaborated upon, and interpreted by analysts in their corporate governance evaluations.

However, exceptions did exist. These occurred when there were gaps in the regulations, where subjects were not covered by the regulations, where "best practices" were not clearly specified, or where there was simply room for interpretation. For instance, when

[72] Scott (2001; 2003) identifies three pillars of institutions: regulative pillars, normative pillars, and cultural-cognitive pillars. The regulative pillars commonly take the form of regulations, laws and legal rules issued by the state, professional associations, business groups and other legal authorities. The regulative pillars of institutions can potentially impose coercive pressure on organisations.

drawing upon the UK *Combined Code of Corporate Governance* (2003) to assess the expertise of audit committee members in UK banks and insurance companies, Walker (2008: 3) pointed out that:

> "Although the Combined Code states that audit committees should have at least three audit members of which one should have relevant financial experience, it does not provide a definition of what constitutes relevant financial experience."

To enable the evaluation to be performed, Walker (2008: 3) set out his own standard for assessing the expertise of audit committee members:

> "When assessing the expertise of audit committee members we looked for non-executives who were currently or had previously been a Finance Director of a FTSE 350 company or had been a senior executive or partner at one of the top four auditors."

However, Walker (2008: 4) went beyond the requirements set out in the *Combined Code*, and argued:

> "It is not necessary for every member of an audit committee to have recent and relevant financial experience because there is some value in having members of the committee from diverse backgrounds who are not afraid to engage in critical analysis, (in our view lawyers would be good at this) or ask questions which others have taken for granted, or perhaps are too afraid to ask. However such directors should make up the minority and not the majority of audit committees."

As can be seen, analysts formulated and developed their own view of "best practices" of corporate governance in their governance evaluations. They injected their own ideas and opinions regarding certain corporate governance issues, or inflected those already in place when gaps in formal regulations of corporate governance were considered to exist. These alternative opinions could potentially re-shape and re-frame the perception by financial market participants of what a good audit committee should look like. For instance, as Walker proposed above, "[...] there is some value in having members of the committee from diverse backgrounds who are not afraid to engage in critical analysis [...] or ask questions which others have taken for granted, or perhaps are too afraid to

ask" (2008: 4).

Here was the other example. While the optimal size of the board was not specified in the *NYSE Corporate Governance Rules* (2003), Dally (2003) set out his own "best practices" with regard to this aspect of corporate governance:

> "While there is no right or wrong size, we believe boards with greater than one dozen members may begin to reach a size where they become ineffective. We believe this is especially true for smaller organizations." (Dally, 2003: 9)

Dally (2003) evaluated the board size of US life/annuity insurance companies by drawing upon their self-developed "best practices" regarding corporate board size as the benchmark. He found that US life/annuity insurance companies on average had 12 board members in 2003. Accordingly, he regarded AFLAC, which had 17 board members, and Reinsurance Group of America, which had 8 board members, as outliers (Dally, 2003: 9).

At times analysts criticised the existing "best practices", as contained in the initial formal regulations of corporate governance, and set out alternative opinions. For instance, Devine et al. (2003: 15) noticed that company John Hancock Financial established a compensation committee. However, it was viewed as ineffective, in that it allowed the executive and management of the company to be awarded compensation packages that were considered to be excessive. This led Devine and his colleagues to point out:

> "While we believe the establishment of the formal board committees required by the NYSE is a positive step, in our opinion, it would also be naive to believe that such committees in and of themselves will result in good governance and proper alignment of shareholder and management interests." (Devine et al., 2003: 15)

In this case, the conception regarding board structure by Devine et al. (2003) somehow departed from and went beyond "best practices" contained in formal regulations of corporate governance, such as those prescribed in the *NYSE Corporate Governance*

Rules (2003)[73]. Instead, it paralleled the suggestion made by, for instance, Bradley (2004) that board effectiveness is more than a matter of structure, and that the "human side" of the board is equally important[74]. Due to the perceived gaps in formal regulations of corporate governance, Devine and his colleagues did not neutrally operationalise the existing regulatory requirements. Instead, Devine and his colleagues proposed alternative ideas, and based their evaluations of the corporate governance procedures adopted by John Hancock Financial on the alternative ideas.

In short, when evaluating the corporate governance procedures adopted by companies, which themselves were based on the formal rules and codes of corporate governance, analysts were not acting simply as neutral vehicles, "carrying" institutional ideas from one place to another. Analysts were re-interpreting and transforming the original "best practices" of corporate governance, rather than neutrally applying them or being wholly constrained by them. In some instances, analysts actively proposed alternative or additional ideas and opinions in relation to certain corporate governance issues, and used them as norms against which the governance procedures of companies were evaluated. Although the way in which analysts came up with the alternative ideas was not revealed in the corporate governance reports they produced, analysts challenged some of the dominant institutional ideas related to certain corporate governance issues contained in formal regulations, and injected additional elements. As has been noted, for instance, in the case of Walker (2008: 4) proposing that "[i]t is not necessary for every member of an audit committee to have recent and relevant financial experience", these alternative or additional elements could potentially re-shape and re-frame the original "best practices" of corporate governance.

4. Comparative evaluations of corporate governance procedures

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[73] For instance, for the issue of compensation committee, Rule 5 of the *NYSE Corporate Governance Rules* (2003) simply states that "listed companies must have a compensation committee composed entirely of independent directors", and that the "compensation committee must have a written charter that addresses the committee's purpose and responsibilities [... and] an annual performance evaluation of the compensation committee."

[74] According to Bradley (2004: 112), the "human side" of a board concerns the extent to which individual board members are engaged, well informed, and represent diverse skill sets and perspectives.

Making comparisons is one of the key mechanisms deployed by critics (e.g. Baumann, 2001; Beunza & Garud, 2007). Consistent with the view of analysts as critics, this mechanism was also deployed by analysts, and it featured often in their corporate governance reports. Analysts sought to examine how companies "stacked up" on a specific governance issue (Sims & Hoch, 2003: 1), they sought to investigate which companies "saw the biggest improvements/declines" in their CGQ scores[75] (Sims & Hoch, 2003: 2), and they aimed to identify "leaders and laggards" (Dally, 2003: 2). Three approaches to making comparison were adopted by analysts: narrative comparison, tabular comparison, and rankings. These different ways of comparing performed by analysts made use of various forms of inscriptions, including narratives, lists, and ranking tables (cf. Latour, 1987; Robson, 1992). They rendered the corporate governance procedures of companies visible, measurable, comparable, and amenable to further assessment and checking.

4.1 Narrative comparison of corporate governance procedures

The term *narrative comparison* is used here to describe one important aspect of the corporate governance evaluations performed by analysts. *One-to-one* comparison was one type of narrative comparison, in which analysts evaluated the corporate governance procedures adopted by one company in relation to the governance procedures of the other company. For instance, when Devine et al. (2003) were reviewing the number of board meetings excluding the CEO at Manulife Financial in 2002, they compared the practice adopted by Manulife Financial with that of Sun Life Financial:

> "This level [i.e. the number of board meetings excluding the CEO at Manulife Financial in 2002 which was 11] was behind only Sun Life, the other Canadian insurer in our study, which held 14 meetings in 2002." (Devine et al., 2003: 37)

As Devine et al. (2003: 12) mentioned in their report, board meetings excluding the CEO were not common among Northern American life insurance companies, although these meetings were considered as being able to enhance the independence of the

[75] The Corporate Governance Quotients (CGQ) scores are provided by the Institutional Shareholder Services (ISS).

corporate board. The comparison above depicted Sun Life as the role model for this aspect of corporate governance, and accordingly Sun Life came to set the standard for the other companies in the same industry. While the optimal number of this kind of meeting was not specified in formal regulations of corporate governance, the practice adopted by Sun Life came to be seen as an exemplar of "best practice". In this manner, one-to-one comparisons allowed assessments of corporate governance which went beyond formal regulatory requirements. By comparing the practice adopted by Manulife Financial against that of Sun Life, analysts were able to suggest that the number of board meetings excluding the CEO at Manulife Financial in 2002 was sufficient, and fairly close, to "best practice".

One-to-n comparisons were also performed by analysts. In this case, the corporate governance procedures adopted by one company were compared to those of more than one company in the same industry. For instance, the board of O'Reilly was regarded by Sims and Hoch (2003: 5) as the "most troubling" and the "loser" based on the corporate governance rating provided by the Institutional Shareholders Services in 2003. To demonstrate this, Sims and Hoch (2003) pointed out:

> "There is no standing nominating committee [in O'Reilly]. All of our other companies have a nominating committee, and all but one (Home Depot) have committees comprised solely of independent outsiders." (Sims & Hoch, 2003: 5)

This comparative evaluation reviewed the corporate governance practice with regard to the existence and composition of the nominating committee adopted by O'Reilly in relation to the practices adopted by the other companies in the US hardline retail industry[76]. The comparison led to a conclusion drawn by Sims and Hoch (2003) that O'Reilly was a laggard in terms of board practice among its peers. This was largely because O'Reilly was the only company in the hardline retail industry that did not have a nominating committee in 2003. The comparative evaluation performed by analysts

[76] Hardline retailers are considered as including retailers of home centre stock, consumer electronics stock, and furniture. The hardline retailers that Sims and Hoch (2003) covered include: Advance Auto Parts, Inc., AutoZone, Best Buy Company, Inc., Circuit City Group, Home Depot, Inc., Lowe's Companies, Inc., O'Reilly Automotive, Inc., Office Depot Inc, PETCO Animal Supplies, Inc., Radio Shack Corp., Staples Inc., and Toys R Us Inc.

here made the governance practice adopted by O'Reilly comparatively knowable. More specifically, the board practice of O'Reilly was made knowable in relation to those practices adopted by the other companies in the same industry. With such comparison, the corporate board of O'Reilly was not only evaluated in a stand-alone manner. Instead, it was evaluated in a relative manner, and was constructed as a comparable object. This comparison, therefore, created an additional lens through which the performance of the corporate board at O'Reilly could be assessed and checked by participants in financial markets.

The comparisons made by analysts were strongly informed by and tied to the requirements as contained in formal regulations of corporate governance. For example, it was considered "best practice" that the corporate board should have a nominating committee which is solely comprised of independent members[77]. This "best practice" informed and was operationalised in the comparison made by Sims and Hoch (2003) between the board practice adopted by O'Reilly and those of the other companies mentioned above. In 2003, O'Reilly did not have a nominating committee while the other companies in the US hardline retail industry did, the board of O'Reilly was regarded as the most troublesome in this industry (Sims & Hoch, 2003: 5). When it created a nominating committee in 2004, and notwithstanding its failure to adhere to the requirement that the nominating committee should be comprised solely of independent members, O'Reilly was praised by analysts who regarded this change as "a major step forward for the company" (Sims et al., 2004: 8). This was largely because the board practice adopted by O'Reilly had caught up, to a certain extent, with those of its peers, and had at least started to move towards "best practice".

In another case, the evaluation undertaken by Walker (2008) of the board practice adopted by Aviva relative to that of the other life insurance companies in Britain, was informed by the UK *Combined Code of Corporate Governance* (2003). As Walker (2008: 8) put it:

> "[...] boards in this sector [i.e. UK life insurance sector] appear to

[77] For instance, this is stated in Rule 4 of the *NYSE Corporate Governance Rules* (NYSE, 2003).

> have a higher number of directors with experience of the financial and insurance sectors [...]. However, the issue of the competence level of the audit committee remains paramount and in this respect Aviva stands out as a company with a well balanced board, having non-executives who are not members of the audit committee (80%) and an audit committee that has two members with relevant financial experience, which goes beyond the requirements of the Combined Code."

As can be seen, these evaluations undertaken by analysts of the relative merits of the corporate governance practices adopted by companies remained strongly tied to "best practices" of corporate governance as contained in the formal codes. In the comparison, the corporate governance procedures adopted by companies were indirectly and implicitly benchmarked against these formal regulatory requirements. These formal regulatory requirements related to corporate governance implicitly penetrated the comparison, guiding and informing the comparative evaluations performed by analysts.

4.2 Tabular comparison of corporate governance procedures

In addition to benchmarking, and one-to-one and one-to-n comparisons, the corporate governance procedures of companies were also compiled, summarised, and represented in various forms of tables by analysts. These tables made possible and facilitated new forms of comparison, which we term *tabular comparison.*

For instance, Table 1 below from Krutick & Osur (2004: 4) depicted the board procedures of companies in the US entertainment industry. The information contained in this table can potentially be found in the annual reports of individual companies. However, it looked different, in that the information in Table 1 had been edited and transformed by analysts. For Table 1, analysts selected and summarised the information about the corporate governance practices associated with ten structural issues concerning the corporate board adopted by US entertainment companies, and represented the information in tabular form. These issues included: number of board members, whether the Chairman is also the CEO, whether the former CEO still sits on the board, whether the nominating and compensations committees are completely

consisted of independent members, whether the board hold meetings without the presence of the CEO, whether the board sets out the term limit or the mandatory retirement age for board members, the components of board compensation, whether directors are required to own stocks, and whether reporting guidelines on these issues exist. In the last two rows of the table, in particular, analysts explicitly set out what they viewed as favourable and unfavourable policies with regard to each aspect of the board practice examined. Also, companies were grouped in the table based on the nature of their businesses, namely, cruising, recreational boating, toys, theme parks, and video games. What analysts had done here was not dissimilar to some work performed by the Organisation for Economic Co-operation and Development (OECD). The OECD collected data from OECD countries concerning public management reforms, and edited and summarised the data in reports (Sahlin-Andersson, 1996). The editing and representing of corporate governance information by analysts exemplified the view that when information is being "carried", the form and the format of it are subject to revision and transformation (e.g. Sahlin-Andersson, 1996; Sahlin-Andersson & Engwall, 2002). Here, more specifically, the information about the corporate governance procedures adopted by companies was summarised, edited, and represented in tabular form.

Table 1

Figure 1. Summary of Corporate Governance Procedures as of January 2004

	Board of Directors									
Company	Number of members *	Chairman (CEO or other)	Former CEO on board	Nominating Committee	Compensation Committee	Board meetings w/o CEO?	Term limit or mandatory retirement age?	Board Compensation	Stock Ownership	Reporting Guidelines
Cruising										
Carnival Corp.	6 insiders & 8 independent	CEO*	YES*	All independent	All Independent	YES*	No Restrictions	Combination of cash & equity	NA	YES
Royal Caribbean	2 insider & 10 independent	CEO	NO	All independent	All Independent	NO	No Restrictions	Combination of cash & options	NO	NA
Recreational Boating										
Brunswick Corp.	2 insiders & 10 independent	CEO	NO	All independent	All Independent	YES	Retirement at age 70	Combination of cash & equity	All directors	YES
Toys										
Hasbro, Inc.	2 insiders & 12 independent	Other	YES	All independent	All Independent	YES	Mandatory Retirement age	Combination of cash & equity	All directors w/ more than 1 yr. of service	YES
LeapFrog	4 insiders & 5 independent	Other	YES	NA	All Independent	NA	No Restrictions	Combination of cash & options	All directors w/ more than 1 yr. of service	NO
Mattel	1 insider & 10 independent	CEO	NO	All independent	All Independent	YES	Mandatory Retirement age	Combination of cash & equity	All directors w/ more than 1 yr. of service	YES
Theme Parks										
Six Flags	3 insiders & 6 independent	CEO	NO	All independent	All Independent	YES	No Restrictions	Combination of cash & equity	NO	YES
Walt Disney	3 insiders & 9 independent	Other	YES	All independent	All Independent	YES	Retirement at age 72	Combination of cash & equity	YES	YES
Video Games										
Blockbuster	5 insider & 3 independent	CEO	NO	Includes Insiders	Includes insiders	NO	No Restrictions Disclosed	Combination of cash & equity	All directors w/ more than 1 yr. of service	
Electronic Arts	1 insider & 8 independent	CEO	NO	All independent	All Independent	YES	Mandatory Retirement Age	Combination of cash & equity	All directors w/ more than 1 yr. of service	YES
GameStop	2 insider & 5 independent	CEO	NO	NA	Includes Insiders/Affiliated Outsiders	NO	No Restrictions	Combination of cash & equity	NA	NO
SB Analysis:										
Favorable Policies	Board size 6-15 with 3/4 independent	Other	NO	All independent	All Independent	YES	Mandatory Retirement Age and Term Limit	Combination of cash & equity	All directors w/ more than 1 yr. of service	YES
Unfavorable Policies	Board size > 15 with majority insider or affiliated parties	CEO	YES	Includes Insiders	Includes insiders	NO	No Mandatory Retirement Age or Term Limit	Cash only	NO	NO

Source: Figure 1. Summary of Corporate Governance Procedures as of January 2004,Krutick & Osur (2004: 4)

Table 1, like other inscriptions (cf. Latour, 1987; Robson, 1992), should not be seen as a neutral listing of information (cf. Rose & Miller, 1992). The collecting of the information about the board practices adopted by companies in the US entertainment industry and its representation in tabular form, made the governance procedures adopted by corporations in the same industry comparatively knowable and observable. More importantly, a new visibility of the corporate governance procedures adopted by companies in this industry was created through the deployment of the table by analysts.

Comparison of the board practices adopted by the different companies in the US entertainment industry can be readily facilitated and performed. For instance, this table highlighted that the compensation committee of GameStop "include[d] insiders/affiliated outsiders" in 2004. By looking through the table, one can easily spot that GameStop was not alone, as the compensation committee of Blockbuster also "include[d] insiders". The compensation committees at all other companies, however, consisted of "all independent" members. Blockbuster and GameStop were shown to be exceptional in the table, and they can be treated as the outliers among all the companies in the US entertainment industry. While the tabular representation may not provide additional information, what it did was to provide a new type of visibility of the governance of corporations. The corporate governance practices adopted by companies in the US entertainment industry were transformed and inscribed into a form that they became visible, comparable, and assessable. Financial market participants, such as institutional investors, were provided with additional input to undertake their own comparative assessment of the corporate governance procedures adopted by companies. In other words, in addition to facilitating the comparison performed by analysts themselves, Table 1 can also make it possible for some financial market participants to further assess and check the corporate governance procedures of companies in a comparative manner ex-post the evaluations performed by analysts.

Furthermore, one special feature of Table 1 was that the perception by analysts of the "favourable policies" regarding the ten structural issues concerning the corporate board examined were clearly specified and incorporated into the table. According to Rule 1 of the *NYSE Corporate Governance Rules* (2003), "listed companies must have a majority of independent directors". However, the percentage that can be regarded as "a majority" or the optimal board size was not specified in this particular piece of corporate governance regulation. For Table 1, analysts developed and explicitly set out their own notion of "best practices" regarding these aspects of governance procedures, i.e. the "favourable policies" – "board size 6 – 15 with ¾ independent" directors. These additional elements to the original "best practices" contained in the *NYSE Corporate Governance Rules* (2003) can function as the revised norm and ideal that analysts employed in judging the quality of corporate boards. As suggested earlier, the additional

elements proposed by analysts can potentially re-shape and re-frame the original "best practices" of corporate governance perceived by participants in financial markets. Furthermore, as the information about the governance practices of individual companies and the "favourable policies" were both included in Table 1, both analysts and other participants in financial markets can compare the board practices adopted by companies against the "best practices" formulated by analysts.

In short, Table 1 might have been constructed by analysts primarily for the pragmatic and immediate purpose of listing information about the corporate governance procedures adopted by companies, and presenting it to some financial market participants, such as institutional investors. However, the table rendered the corporate governance procedures adopted by companies comparatively knowable and visible in a particular way, and hence facilitated further comparison and evaluation by participants in financial markets. As an inscription, this table not only constituted a new way of recording and representing information about a domain, it also changed the way in which such a domain could be assessed and examined. Here, the board practices adopted by companies in the US entertainment industry were transformed and constructed in such a way that financial market participants could be in the know about the relative merits of the different corporate boards, and potentially act upon them (cf. Robson, 1992; Rose & Miller, 1992).

The information included in Table 1 came from the records kept by analysts and the annual reports of companies. Table 2, from Sims & Hoch (2003: 9) and shown below, is different in that it is partially based on information provided by other parties. For Table 2, input from the Institutional Shareholder Services (ISS), a corporate governance rating organisation, was drawn upon by analysts. This table summarised information about 17 structural issues concerning the corporate board: board composition, nominating committee composition, compensation committee composition, the establishment and meetings of governance committee, board election policy, board size, CEO's role on other company boards, whether the former CEO serves on the board, shareholders' use of cumulative voting rights, the existence of a lead director, the existence and disclosure of governance guidelines, participation in "ISS Accredited" education program, board

meeting attendance, shareholders' approval of changes to board size, board vacancies, related party transactions, and board policies.

Table 2

SUMMARY OF BOARD ISSUES FOR HARDLINE RETAIL

"+" indicates a positive factor for the company & "–" indicates a negative

		HD	LOW	BBY	CC	RSH	SPLS	ODP	TOY	AZO	AAP	ORLY
	Board Composition (% of outsiders)											
–	Less than 50%											X
+	Greater than 50%			X				X				
+	Greater than 67%						X					
+	Greater than 75%	X	X		X				X	X	X	
+	Greater than 90%					X						
	Nominating Committee Composition											
–	No standing committee											X
–	Includes affiliated outsiders	X										
+	Solely independent outsiders		X	X	X	X	X	X	X	X	X	
	Compensation Committee Composition											
–	Includes affiliated outsiders											X
+	Solely independent outsiders	X	X	X	X	X	X	X	X	X	X	
	Governance Committee											
–	No committee established											X
–	Committee exists but has not met in the past year										X	
+	Committee exists & has met in the past year	X	X	X	X	X	X	X	X	X		
	Board Election Policy											
–	Board is classified		X	X	X		X					X
+	Full Board is elected annually	X				X		X	X	X	X	
	Size of the Board											
+	Between 6 and 8 directors serving on Board											X
+	Between 9 and 12 directors serving on Board	X	X	X	X			X	X	X	X	
+	Between 13 and 15 directors serving on Board					X	X					
	CEO Role on Other Company Boards											
+	Serves on the Boards of 2 or fewer companies	X	X	X	X	X	X	X	X	X	X	X
	Former CEO Role on Board											
–	Former CEO does still serve on Board			X			X	X		X		X
+	No former CEO serves of the Board	X	X		X	X			X		X	
	Shareholders Use of Cumulative Voting Rights											
–	Do not have cumulative rights in director elections	X	X	X	X	X	X	X		X	X	X
+	Have cumulative rights in director elections								X			
	Lead Director											
–	No designated ldr; Chairman & CEO are same person		X					X	X	X		X
+	The company has a designated lead director	X			X	X					X	
+	Chairman & CEO positions held by separate people			X			X					
	Governance Guidelines											
–	Does not have any that have been publicly disclosed	X	X		X			X			X	X
+	Has guidelines that have been publicly disclosed			X		X	X		X	X		
	Participation in "ISS Accredited" Education Program											
–	No directors participated	X	X	X	X	X	X	X	X		X	X
+	Less than a majority of directors participated									X		
	Board Meeting Attendance											
+	All directors attended at least 75% of mtgs in past year (or had a valid excuse if less than 75% were attended)	X	X	X	X	X	X	X	X	X	X	X
	Changes to Board Size											
–	Shareholder approval is not needed to authorize changes	X		X		X	X	X	X	X		X
+	Changes can not be made without shareholder approval		X		X						X	
	Board Vacancies											
–	Filled by remaining directors		X		X							
+	Filled by directors elected by shareholders	X				X	X	X		X	X	
	"Related Party" Transactions											
–	CEO is a party to 1 or more "related party" transactions											X
+	CEO is not a party to any "related party" transactions	X	X	X	X	X	X	X	X	X	X	
	Board Policies											
	Is there a disclosed policy that states that the Board...											
+	Has a mandatory retirement age in place for directors?					X	X		X	X		
+	Has term limits in place for directors?									X		

Source: Institutional Shareholder Services and Smith Barney

Source: Summary of Board Issues for Hardline Retail, Sims & Hoch (2003: 9)

Sims et al. (2004: 10) regarded Table 2 as providing "a comprehensive review of the specific issues assessed in determining a company's Board quality". As this table listed information about the board practices adopted by all the companies in the US hardline retail industry, comparison of the board practices adopted by different companies can be easily facilitated. Particularly, the classification of each structural issue concerning the corporate board into several categories and the grouping of companies in accordance with their performances on each issue by analysts created a new visibility of the governance of companies in the US hardline retail industry. This new visibility can potentially enable and facilitate an additional dimension for comparison. For example, under "Board Composition", there were five categories: "less than 50%" of outsiders, "greater than 50%", "greater than 67%", "greater than 75%", and "greater than 90%". Company RSH was positioned under the category of "greater than 90%", which suggested that more than 90% of the board of directors at RSH were "outsiders". As RSH was the only company in this category, it can be seen almost by default as an exemplar of best practice regarding board composition among companies in the US hardline retail industry. In contrast, company ORLY was the only company that appeared under the category of "less than 50%", suggesting that ORLY represented a case of "worst practice", as it were. It was also revealed that the board of ORLY did not closely comply with the regulatory requirement stated in the *NYSE Corporate Governance Rules* (2003) that "listed companies must have a majority of independent directors". Furthermore, according to Table 2, companies HD, LOW, CC, TOT, AZO, and AAP were all placed under the category of "Greater than 75%". This implied that corporate board compositions of these companies possessed similar features, namely, their boards had "greater than 75%" but less than 90% outsiders. In other words, regarding board composition, as Table 2 revealed, companies HD, LOW, CC, TOT, AZO, and AAP all performed better than ORLY, even though the percentages of outsiders in these companies had not reached the highest level that RSH had achieved.

As with Table 1, no additional information about the corporate governance procedures adopted by companies appeared in Table 2. However, and again like Table 1, by transforming the way in which information was presented, the corporate governance procedures adopted by companies were made comparatively knowable and observable,

and perhaps more importantly, visible in terms of categories. The corporate governance evaluations performed by analysts, again, gave a new visibility to the governance of corporations. The corporate governance procedures adopted by companies in the US hardline retail industry were again transformed into assessable and checkable objects that could be evaluated and examined by other financial market participants (e.g. institutional investors). Also, the information about the corporate governance procedures adopted by companies in the US hardline retail industry included in Table 2 was partially supplied by the Institutional Shareholder Services (ISS). However, it was analysts who put into place the tabular device, and who made use of the classification system to transform the way in which the information was represented. As "carriers" who transmitted ideas and information, analysts were far from being neutral vehicles which simply transmit information. Instead, analysts edited and transformed the way in which the governance of companies could be viewed and assessed through their corporate governance evaluations (cf. Sahlin-Andersson & Engwall, 2002; Scott, 2003).

As revealed from Table 2, a classification system was deployed by analysts in their evaluations of the corporate governance procedures adopted by companies. The classification system deployed by analysts in Table 2 grouped companies, represented the corporate governance procedures adopted by companies in a comparative manner, provided a new visibility of the governance of corporations, and facilitated further comparisons. However, there are other classification systems that quantitatively measure objects and hierarchically arrange things being assessed. Ranking is an example of such classification systems, and it was deployed by analysts, both explicitly and implicitly, in their corporate governance evaluations.

4.3 Comparison of corporate governance procedures through rankings

Rankings are a prevalent feature of modern society. A number of scholars have examined the implications of such ranking systems, such as business school rankings (e.g. Hedmo, Sahlin-Andersson, & Wedlin, 2001; Wedlin, 2006), MBA rankings (e.g. Free, Salterio, & Shearer, 2009), and law school rankings (e.g. Espeland & Sauder,

2007; Sauder & Lancaster, 2006). Rankings are part and parcel of the increasingly flourishing activities of monitoring, evaluating, scrutinising, and auditing in various aspects of social, economic, and political life (Djelic & Sahlin-Andersson, 2006; Wedlin, 2006), and are a central part of the "audit society" (Power, 1997). They have also become a new mode of governance, which can impose strong normative pressures on the objects being ranked, even while not forming part of legislation or regulation (cf. Djelic & Sahlin-Andersson, 2006; Wedlin, 2006).

In the corporate governance evaluations performed by analysts, two types of rankings and associated league tables were deployed. These were rankings that made use of the input provided by other interest groups, and rankings compiled by analysts alone. Table 3 below from Sims and Hoch (2003: 8) and the ranking embedded in it, represents an example of the first type. Instead of providing a comprehensive review of the board practices adopted by companies, Table 3 sought to provide a snapshot of the overall quality of the board practices of companies in the US hardline retail industry. This was made possible by drawing upon the Corporate Governance Quotient (CGQ) Board Issues Sub-Scores issued by the Institutional Shareholder Services (ISS)[78]. The ISS quantified and measured the quality of the board practices adopted by companies in the US hardline retail industry. This quantification transformed qualitative corporate governance information into quantitative information. The difference between the corporate governance procedures adopted by companies was transformed into a magnitude, and a common metric, namely, the corporate governance score, was generated (cf. Espeland & Stevens, 1998).

[78] Before the Institutional Shareholder Services (ISS) was acquired by RiskMetrics Group in January 2007, it issued two overall Corporate Governance Quotient (CGQ) scores (namely, index ranking and industry ranking) to companies. Companies also received four sub-scores for four dimensions of corporate governance, namely, board issues, takeover defences, audit, and compensation/ownership. For the sub-scores, the highest score available was 5, and the lowest score available was 1. For board issues, the following 17 elements were taken into account by the ISS: board composition, nominating committee, compensation committee, governance committee, board structure, board size, changes in board size, cumulative voting, boards serve on – CEO, boards serve on – other than CEO, former CEOs, chairman/CEO separation, board guidelines, response to shareholder proposals, board attendance, board vacancies, related party transactions. For more information, see http://www.isscgq.com/RatingCriteria.htm.

Table 3

Company Name	Ticker	Board Issues
AutoZone	AZO	5
Advance Auto Parts	AAP	5
Toys R Us	TOY	5
Radio Shack	RSH	5
Staples	SPLS	4
Home Depot	HD	3
Lowe's Companies	LOW	3
Office Depot	ODP	2
Best Buy	BBY	2
Circuit City	CC	2
O'Reilly Automotive	ORLY	1

Source: Sims and Hoch (2003: 8)

However, it was not the ISS that put together the CGQ Board Issues Sub-Scores into a single table. What made Table 3 special was the getting together of these scores by analysts, as well as the hierarchical positioning of the companies in the table based on the scores. This table can be read as a ranking/league table regarding the quality of the board practices adopted by companies in the US hardline retail industry. Here, companies AZO, APP, TOY, and RSH can be considered as leaders, as indicated by them being accorded the highest possible CGQ Board Issues Sub-Score of "5", and by the top positions these companies captured in the table. In contrast, companies ODP, BBY, CC, and ORLY can be considered as laggards, as indicated by their low CGQ Board Issues Sub-Score of "1" or "2", and by being placed in bottom position in the table. The discrepancy in the measured quality of board practices between good players and bad players was visually revealed by having AZO, APP, TOY, and RSH placed at the top in the table, and ODP, BBY, CC, and ORLY at the bottom. The magnitude of the shortfall, which was represented by the difference in the CGQ Board Issue Sub-Scores received by companies, was also made explicit and visible by analysts who incorporated the scores in Table 3.

While the CGQ Board Issue Sub-Scores provided the necessary input for analysts to construct the ranking and the associated league table, it was analysts who gathered these scores, elaborated upon them, used them in an alternative manner, and represented them

in a different format. More specifically, analysts collected the CGQ Board Issue Sub-Scores received by companies in the US hardline retail industry, arranged companies hierarchically based on the scores, represented the scores in tabular form, and rendered companies as rankable objects. The ranking constructed by analysts here can be thought of as a "second-order measurement" of the quality of corporate boards which was developed based on the originally available CGQ Board Issue Sub-Scores [79] (cf. Power, 2004: 771-774). Like Tables 1 and 2, Table 3 also created a new visibility of the governance of corporations in the US hardline retail industry. The ranking table rendered the corporate governance practices of companies hierarchically and quantitatively visible. It transformed the manner in which the corporate governance procedures adopted by companies could be viewed and assessed. The attention of financial markets participants, such as institutional investors, can potentially be directed by the ranking and the associated table from the individual CGQ Board Issue Sub-Scores received by individual companies to the differences in these scores between companies. A new mode of comparison of the board practices adopted by companies in the US hardline retail industry was made available by focusing on the positions of companies in the ranking table, and the differences in the scores received by companies.

The rankings constructed by analysts not only facilitated new modes of comparison of board practices, the ranking also "punishes and rewards" (cf. Foucault, 1977: 181). In the case of companies such as AZO, APP, TOY, and RSH, they were "rewarded" by being placed at the top of the ranking. Analysts Sims and Hoch (2003: 8) indeed commented positively on the corporate governance practices adopted by these companies in their evaluations:

> "For our universe, AutoZone, Advance Auto Parts, Toys R Us, and RadioShack all have extremely high-quality Boards that rank in the top quintile of all companies" (Sims & Hoch, 2003: 8)

[79] Power (2004: 771) suggests that first-order measurement "relates to the institutions of classification that make counting possible", while second-order measurement can be understood as "the further aggregation of numbers and the further creation of ratios and indices" which can be seen as "measure of measure". Although the ranking constructed by analysts on the quality of corporate boards did not strictly aggregate number or create ratios, it was based on the CGQ Board Issue Sub-Scores which can be seen as first-order measures. The ranking here can be viewed as "measure of measure".

After nine months, when Sims and his colleagues evaluated the corporate governance procedures adopted by companies in the US hardline retail industry again, these four companies once more obtained the highest possible CGQ Board Issues Sub-Scores from the ISS for their board practices. Their board practices were praised by Sims and his colleagues who, for the second time, regarded the corporate boards of these four companies as "extremely high-quality" (Sims et al., 2004: 10).

In the construction of the rankings and associated league tables, "best practices" of corporate governance contained in formal regulations of corporate governance were often made reference to, unpacked, and elaborated upon by analysts. Table 4, adapted from Devine et al. (2003: 11) and shown below, can be used to demonstrate this. Table 4 also represented the kind of rankings and the associated league tables that analysts constructed without the input provided by other interest group of corporate governance. Instead, it was constructed by analysts based on the information contained in the annual reports of corporations and the data maintained by analysts themselves.

Table 4

Figure 4. Outsider Representation on Boards as of December 2003					
Symbol	**Board Composition**				
	Insiders	**Affiliated**	**Unrelated**	**BOD Size**	**% Unrelated**
FBL	4	14	3	21	14%
AFL	3	4	11	18	61%
NFS	2	2	8	12	67%
JHF	2	1	10	13	77%
AMH	1	-	9	10	90%
MET	3	-	13	16	81%
JP	2	-	9	11	82%
TMK	2	-	9	11	82%
SLF	3	-	14	17	82%
PFG	2	-	12	14	86%
AFC	1	-	7	8	88%
PL	1	-	8	9	89%
UNM	1	-	9	10	90%
LNC	1	-	11	12	92%
MFC	1	-	13	14	93%
PRU	1	-	13	14	93%
Average	*1.7*	*0.5*	*10.4*	*12.6*	*83%*
Avg.ex.High/low	*1.6*	*0.2*	*10.1*	*12.3*	*86%*

Source: Company reports and Smith Barney

Source: Figure 4. Outsider Representation on Boards as of December 2003, Devine et al. (2003: 11)

According to Table 4, board compositions of US life insurance companies, and particularly, the independent members in corporate boards, were evaluated. The numbers of "insiders", "affiliated directors", and "unrelated"[80] directors, and the percentage of unrelated directors in each corporate board were listed in the table. Roughly speaking, companies with smaller percentages of "unrelated" directors in their boards appeared at the top in the table, while those with greater percentages appeared at the bottom. Therefore, this table can be considered as a ranking table which hierarchically ordered companies based on the level of board independence. To construct this table, the definition of "independence" specified in the *NYSE Corporate Governance New Rules* (2003) was first operationalised and drawn upon by analysts to inform their judgement

[80] See Rule 2 of the *NYSE Corporate Governance New Rules* (2003) for the detailed definition of "independent director" (or "unrelated director").

of who was insider, affiliated director, and unrelated director[81]. The *NYSE Corporate Governance New Rules* (2003) indeed contains detailed specifications on circumstances in which a director is not considered as "independent". However, the meaning contained in laws and regulations, and the interpretation of them are often obscured rather than being transmitted in a straightforward manner (Edelman & Suchman, 1997; Scott, 2003). As a consequence, these specifications can be perceived and interpreted by analysts in diverse ways. For instance, as can be seen from Table 4, Devine and his colleagues (2003) considered company NFS as having two insiders, two affiliated directors, and eight unrelated directors. This led to a corporate board with 67% unrelated directors, and this was lower than the industry average of 83%. NFS was also ranked the third for having the lowest percentage of unrelated directors among all companies assessed. However, in the other corporate governance evaluation, Dally (2003) considered those two affiliated directors in NFS as unrelated. This gave rise to a board with 83% unrelated directors, and this percentage exceeded the industry average of 80%[82].

The notion of "independence", as noted above, can be subject to diverse interpretations. Nevertheless, analysts elaborated upon the "best practices" associated with the issue of board independence originally contained in formal regulations of corporate governance, developed their own conceptions of "independence" where necessary, and adhered to them in their corporate governance evaluations. Without these prior steps, Devine and his colleagues (2003) may not have been able to measure the independence of corporate boards, represent the corporate governance practices regarding board composition adopted by companies in tabular form, or hierarchically order companies. The

[81] The *NYSE Corporate Governance New Rules* (2003) was the main regulation that Devine et al. (2003) drew upon in the evaluations of the corporate governance procedures adopted by companies. They explicitly stated in their report that, they "cite relevant new rules and data illustrating how well the companies [...] now comply with the new rules" (Devine et al., 2003: 5). They also summarised the NYSE's amended rules in the appendix of their report (Devine et al., 2003: 65-69).

[82] As Devine et al. (2003: 39) put it, "[O]f its [i.e. NFS'] 13 members, two are insiders and two are considered affiliated because they serve on the board of its parent company, Nationwide Property & Casualty Company. Classifying the two affiliated members as "related," the outside representation is 67%, but classifying them as unrelated puts the outside representation at 83%". Devine et al. (2003) decided not to treat those two affiliated members as "unrelated", while Dally (2003) treated them as "unrelated" or "independent" directors. These different treatments reflected the different understandings by analysts of the notion of "independence" as specified in the *NYSE Corporate Governance New Rules* (2003).

alternative "best practices" regarding certain issues of corporate governance developed by analysts may, to some extent, be embedded in the rankings and the associated league tables that analysts constructed. They can potentially re-shape and re-frame the original "best practices" perceived by participants in financial markets, such as institutional investors, who may make use of the rankings and the associated league tables constructed by analysts. In the present case, it was the notion of "board independence" developed and adopted by analysts in their corporate governance evaluations that can potentially be passed onto other financial market participants through the ranking in Table 4. The revised and re-formulated notion of "board independence" may potentially challenge and transform the original perception of the issue of board independence by constituents of the investing public.

Financial markets participants, such as institutional investors, can potentially find out the numbers of "insiders", "affiliated directors", and "unrelated" directors for companies in the US life insurance industry in their own way, and may also compute the percentages of unrelated directors. However, this work had been performed by analysts who also put together the data and represented the data in a ranking table. As can be observed from Table 4, the corporate boards were more or less hierarchically ordered based on the degree of their "independence". The magnitude of the difference in the level of board independence between companies was also quantitatively revealed. The industry averages regarding the numbers of "insiders", "affiliated directors", "unrelated" directors, and the percentage of unrelated directors were also computed and incorporated into the table by analysts. Table 4 created a new visibility of board independence for companies in the US life insurance industry. By means of ranking, corporate boards were rendered comparatively and hierarchically visible, measurable, and calculable. Comparisons of the numbers and percentages of independent board members between different companies in the same industry were facilitated. Corporate boards were transformed into a form that they can readily be further examined, evaluated, and acted upon. In other words, the inscribing of the level of board independence for US life insurance companies in a ranking table made it possible for some participants in financial markets to further assess the practices adopted by companies in this industry ex-post the corporate governance evaluations performed by analysts (cf. Power, 1997;

Robson, 1992; Rose & Miller, 1992). More specifically, institutional investors could clearly spot the position that a particular company captured in the ranking, and compare the board practice adopted by this particular company with that of another company, or those of its peers, or the industry averages. In other words, Table 4 may, once again, provide institutional investors with additional input to assess and check the corporate governance procedures adopted by companies in a comparative manner.

5. Discussion

This chapter has examined the ways in which evaluations of corporate governance were performed by analysts. Special attention has been paid to the mechanisms and devices deployed by analysts in their corporate governance evaluations. Based on the corporate governance reports produced by some analysts in the US and the UK, this chapter has documented that analysts performed corporate governance evaluations by directly and explicitly benchmarking the corporate governance procedures of companies against "best practices" contained in formal regulations of corporate governance; and by making comparison, which comprised a mixture of narrative comparison, tabular comparison, and rankings. The notion of "critic" from economic sociology has been drawn upon as the key theoretical reference point to inform the empirical analysis. It is supplemented by the concept of "carrier" from neo-institutional theory, and the notion of "inscription" from the social studies of science and technology literature.

The direct and explicit benchmarking undertaken by analysts in their corporate governance evaluations, it is argued, constituted a further layer of checking on the corporate governance procedures adopted by companies against formal regulatory requirements. This benchmarking has been depicted in this chapter as *checking of checking,* or *double checking,* where the corporate governance procedures of corporations were monitored, audited, and scrutinised by a third party, in this case analysts. As critics, and in their capacity of "institutional regulators", analysts can be thought of as possessing the capacity to monitor compliance with existing "best practices" of corporate governance by companies. The comparative evaluations were

undertaken through various forms of inscriptions, such as narratives, lists, and ranking tables. Corporate governance procedures were transformed by these inscriptions into a form that was visible, comparable, measurable, and calculable. The new visibilities of the governance of corporations created by these inscriptions can potentially offer financial market participants, such as institutional investors, additional input to further assess the corporate governance practice of a company in relation to those of other companies. While the existing literature on critics has not paid sufficient attention to how critical reviews are performed by critics, this chapter has generated some insights into this issue by focusing on the mechanisms and devices deployed by a particular set of critics.

In corporate governance evaluations, analysts often engaged with existing formal regulations of corporate governance. On the one hand, analysts benchmarked the corporate governance procedures adopted by companies against formal regulatory requirements in a direct and explicit manner. On the other hand, these "best practices" also implicitly informed the comparative evaluations performed by analysts of the corporate governance procedures adopted by companies. However, when subjects were not covered by regulations, or "best practices" were not clearly specified, or there was simply room for interpretation, analysts did not neutrally endorse the regulatory requirements, or at least they were not wholly constrained by them. Instead, analysts proposed alternative or additional "best practices", and adhered to and made use of the revised "best practices" in their corporate governance evaluations. In short, corporate governance regulations were constantly drawn upon, unpacked, and re-interpreted by analysts. These findings shed light on the manner in which analysts, who have relatively little experience in dealing with regulatory issues, "carried" the regulative pillars of institutional ideas related to corporate governance (cf. Sahlin-Andersson & Engwall, 2002; Scott, 2003), operationalised the regulatory requirements prescribed in formal regulations, in the process transforming them, even if only to a modest extent.

The deployment by analysts of various forms of inscriptions, such as narratives, lists, and ranking tables in corporate governance evaluations, as previously argued, made the governance of corporations knowable, visible, measurable, and calculable. Analysts

provided little additional information about the corporate governance procedures adopted by companies when undertaking governance evaluations. However, new visibilities of the governance of corporations were created. As analysts created new visibilities of the governance of corporations in financial markets, they contributed to the operationalisation of a particular "programme" (cf. Miller & Rose, 1990) of corporate governance reform, one that placed "transparency" in a central position (cf. Hood & Heald, 2006; OECD, 2004b). Similarly, the mechanisms and devices analysts created and deployed in seeking to make corporate governance practices visible and "transparent", provided a set of "technologies" that made this particular programme of corporate governance reform operational. The mechanisms and devices that analysts deployed in corporate governance evaluations can be viewed, in some sense, as *transparency making devices*, which created a kind of visibility (Grossman et al., 2008a: 98). While statutory regulatory bodies have been seeking to impose corporate governance standards in a top-down manner (e.g. Dallas & Scott, 2006; World-Bank, 2000), analysts can potentially operate in the other direction, or at least give visibility to governance deficits where they exist.

In addition to creating new visibilities, the inscribing of the corporate governance procedures adopted by companies into narrative and tabular forms can allow them to be readily examined, assessed, and compared. These examinations, assessments, and comparisons of the governance of corporations can be undertaken by participants in financial markets (e.g. institutional investors) subsequent to the corporate governance evaluations performed by analysts. The making of assessable, measurable, and comparable corporate governance by analysts is comparable to the process of "making things auditable", as described by Power in his "audit society" thesis (e.g. 1994; 1996; 1997). Power (1996: 310) defines the notion of "making things auditable" as "the construction of the visible signs of 'reasonable practice' for consumption by markets, regulators, courts of law, the state and others [...]". Similarly, the making of corporate governance assessable, measureable, and comparable by analysts can be viewed as the construction of the visible signs of the governance of corporations for use by financial markets participants, including institutional investors and fund managers. These markets participants may largely be distant from the day-to-day operation of companies, and

direct control of the governance of corporations may seem difficult or even impossible. By making the corporate governance procedures of companies in principle assessable, measurable, and comparable, the inscriptions deployed by analysts can potentially facilitate "action at a distance" (e.g. Latour, 1987; Miller, 1991; Miller & Rose, 1990; Robson, 1992) over the governance of corporations. Analysts, therefore, can be thought of as contributing to the *governing* of corporate governance through their corporate governance evaluations, and particularly with their deployment of the various forms of inscriptions.

The empirical analysis of this chapter is based upon the corporate governance reports produced by some analysts in the US and the UK. The chapter has built upon the line of recent research on analysts that has strongly emphasised the importance of examining the work product generated by analysts, namely, their written reports (e.g. Beunza & Garud, 2007; Fogarty & Rogers, 2005). This chapter has extended this line of enquiry by explicitly examining the various forms of inscriptions that make up the written reports produced by analysts, namely, narratives, lists, and ranking tables. The chapter has also considered the potential capacity of these material devices to enable and facilitate further actions possibly taken by some financial market participants towards the corporate boards being examined. Critical review has been conceptualised by Beunza and Garud (2007: 34) as a material activity. This chapter endorses this argument, and suggests that the corporate governance evaluations performed by analysts, which have been viewed as a specific type of critical review, are also material in nature. Narratives, lists, and ranking tables constitute the material infrastructure that underlies the corporate governance evaluations performed by analysts (cf. Beunza & Garud, 2007).

The next chapter examines another aspect of the doing of corporate governance by analysts, namely, the integration of corporate governance within the investment analyses performed by analysts. It investigates the *technologies* deployed by analysts in the linking of corporate governance to the financials. However, attention is also paid to the *programmatic* dimension of the integration. This refers to the ideas, discourses, ideals, and aspirations that were widely articulated in financial markets, and that shaped and animated the concrete tasks performed by analysts. It is to these issues that the thesis

now turns, so as to consider the ensemble of the technological and the programmatic dimensions of the corporate governance work performed by analysts.

Chapter 4

INTEGRATING CORPORATE GOVERNANCE WITHIN INVESTMENT ANALYSES: THE PROGRAMMATIC AND THE TECHNOLOGICAL

1. Introduction

In addition to undertaking evaluations of the corporate governance procedures adopted by companies, analysts have also attempted to link corporate governance to the financials (e.g. profitability, stock price performance, and equity valuation) in investment analyses. This is the second aspect of the doing of corporate governance by analysts that this thesis examines, and is the main focus of the present chapter.

Corporate governance scandals, such as Enron, WorldCom, and Parmalat, that broke out in the early 21st century have significantly shaken the global business landscape. Since then, corporate governance has explicitly been perceived as "an area of risk" (Dallas & Patel, 2004; Dallas, 2004). Incorporating governance issues in the investment decision making process has come to be seen as an ideal to be sought by constituents of the investing public (e.g. The UN Global Compact, 2004, 2005, 2009; The UNEP FI, 2004). However, a common and consistent understanding of how to incorporate corporate governance in asset management, securities brokerage services, and the associated buy-side and sell-side research functions is seen not to exist yet (The UN Global Compact, 2004: 1). The integration of corporate governance in the investment decision making process, which can be regarded as an emerging form of economic calculation, has been explored by various participants in financial market, including fund managers, brokers, and buy-side and sell-side financial analysts. This chapter examines the integration of corporate governance within investment analyses explored by sell-side financial analysts. Specifically, it addresses two related issues: what constituted this particular form of economic calculation, and how such integration was performed by analysts.

The empirical analysis of this chapter is informed by the conceptualisation that economic calculation is constituted by both "programmatic" and "technological" dimensions, and by the ensemble formed between the two (e.g. Mennicken et al., 2008; Miller, 2008a, 2008b; Miller & Rose, 1990; Miller & Rose, 2008; Power, 1997; Rose & Miller, 1992). As introduced in chapter 1, the programmatic dimension generally relates to the ideas and concepts that shape the mission of certain calculative practices, and that attach economic calculation to broader objectives and aspirations in the economy and society. The technological refers to the more or less concrete tasks and routines that practitioners perform. This conceptualisation of economic calculation differs from that of some economic sociologists who have mainly concentrated on the technological aspect and largely downplayed the programmatic dimension[83]. These economic sociologists have argued that economic calculation is constituted by an ensemble of human and non-human agencies, where non-human agencies consist of instruments, tools, and devices that are material, humble, and mundane in nature. For instance, as Callon and Muniesa (2005: 1245) have suggested, economic calculation "is distributed among human actors and material devices", where "material devices" include tools, equipment, technical devices, algorithms, among others. Recently, the notion of "market devices" has been formulated to refer to the material instruments, models, and tools that represent and intervene the construction of markets (Muniesa et al., 2007). Also, in the emerging field of social studies of finance, scholars have emphasised the "technicality" and "materiality" of financial markets. They have studied technical systems and the concrete and material practices of trading, risk management, and on the like, that make up actions and transactions in financial markets (e.g. Beunza et al., 2006; Hardie & MacKenzie, 2007).

However, this so-called "technological turn" in economic sociology, with its emphasis on "material markets" (MacKenzie, 2009), has been criticised for its neglect of the "programmatic" dimension of economic calculation, and hence to the linkages and interdependences between "programmes" and "technologies". As Miller (2008a: 53 &

[83] Many of these economic sociologists are initially scholars in social studies of science and technology. They have emphasised the technological and material aspect of laboratory experiments (cf. Gendron, Cooper, & Townley, 2007: 125).

57) has argued, the emphasis on the material reality of calculation "has not been matched by a similar concern with the 'programmes' or 'ideas'[84] that articulate, animate and give significance to particular ways of calculating", and therefore "resulted in a neglect of the overall ensemble of calculations, inscriptions, tactics, strategies and aspirations [...]". Miller and his colleagues (Mennicken et al., 2008; Miller, 2008a, 2008b) have further suggested that when studying calculative practice, the programmatic and the technological need to be conjointly analysed, and the linkage and interplay between the two dimensions attended to.

This chapter views the integration of corporate governance within the investment analyses performed by analysts as an emerging form of economic calculation. It investigates the mechanisms, tools, and devices deployed by analysts as part of such integration. The chapter also attends to the programmatic dimension of this particular form of economic calculation. Ideas, discourses, and aspirations that the mechanisms, tools, and devices deployed by analysts came to be connected with are seen as an important part of the integration performed by analysts. This chapter aims to shed new light on economic sociology by supplementing the "technological turn" with the consideration of programmes, ideas, and discourses, and the ensembles formed between the programmatic and the technological.

This chapter demonstrates how the integration of corporate governance within the investment analyses performed by analysts was attached to certain idealised and normative elements that had been widely articulated in financial markets. These included the ideas and discourses related to the potential link between corporate governance and the financials that had emerged since the 1980s; the idea of taking into account environmental, social, and corporate governance (ESG) issues in asset

[84] The notion of "ideas", as well as related terms "things" and "marks", have been developed by Hacking (1992) who regards these as elements of laboratory experiments. For Hacking (1992), scientific experiments and laboratory practices are material. However, as he further illuminates, the material "is flanked on the one side by ideas (theories, questions, hypotheses, intellectual models of apparatus) and on the other by marks and manipulations of marks (inscriptions, data, calculations, data reduction, interpretation)" (Hacking, 1992: 32). This implies that, for Hacking (1992), the view of Latour (1987) that inscription is the core characteristic of laboratory experiments is limited (cf. Gendron et al., 2007: 125). In addition to inscriptions, "ideas", namely, the intellectual elements of an experiment, also form an important part of scientific activity.

management, securities brokerage services, and buy-side and sell-side research functions, that started to surface from the early 21st century; and the perception that analysts could and should play a "leading" and "active" role in incorporating corporate governance into the investment decision making process. All together, these programmatic elements, it is argued, shaped and gave significance to the more or less concrete tasks performed by analysts in linking corporate governance to the financials. These ideas, discourses, and perceptions are identified largely based on publicly available documents issued by various organisations and institutions, selected financial newspapers and magazines, textbooks of corporate governance, and academic and practioner publications on corporate governance.

The idealised and normative elements, however, were made operable by the mechanisms, tools, and devices deployed by analysts in the integration. These so-called "technological infrastructures of calculation" (Mennicken et al., 2008) are mostly identified from the corporate governance reports produced by analysts[85]. Quantification of corporate governance issues, corporate governance scores, portfolio analyses, event analyses, regression analyses, "governance-to-profitability" analyses, "governance-to-valuation" analyses, and the various graphs deployed by analysts, operationalised the idea that corporate governance and the financials are potentially linked, and helped fulfil the objective of bringing corporate governance within the investment decision making process. The mechanisms, tools, and devices, like those discussed in chapter 3, can be thought of as *transparency making devices* (cf. Grossman et al., 2008a: 98). Here, these devices made visible the link between corporate governance and the financials, and made visible the category of corporate governance as a risk factor in the investment decision making process.

[85] This chapter mainly draws upon those reports produced by analysts that consider the link between corporate governance and the financials, and that document the integration of governance issues within investment analyses. So far, very few reports of this kind are available. Three reports drawn upon in this chapter were authored by analysts at Deutsche Bank. Deutsche Bank started its corporate governance related research back in 2000, and published a number of reports on this topic. In 2003, Deutsche Bank established a dedicated corporate governance research team. Despite of its termination in late 2008, this team was the first among all brokerage firms that mainly concentrated on corporate governance research. Since 2003, the research output had been published in the "Beyond the Numbers" series. This chapter also draws upon the reports that consider the link between corporate governance and the financials produced by analysts in other sell-side firms.

The rest of the chapter is structured as follows. The next section describes the articulation of the ideas and discourses related to the potential link between corporate governance and the financials in three related arenas from the 1980s, and the emergence of the idea of and agenda for incorporating governance issues into the investment decision making process in the early 21st century. An examination of the mechanisms, tools, and devices deployed by analysts in the integration of corporate governance within investment analyses then follows[86]. The final section summarises the chapter and provides some further comments.

2. The programmatic dimension of the integration of corporate governance within the investment analyses performed by analysts

During the last two decades of the 20th century, ideas and discourses related to the potential link between corporate governance and the financials were articulated in at least three different but related aspects of institutional life: academic research, institutional investment, and public policy making.

The first academic study of the relationship between corporate governance issues and the financials can be traced back to 1955 when Stanley Vance related type of board structure to corporate performance (Vance, 1955, 1978). Subsequent studies of this relationship followed in the 1960s and the 1970s, and they were mostly conducted by Vance (e.g. 1964; 1968; 1977; 1978)[87]. It was not until the 1980s that academic studies of the link between corporate governance and the financials started to gain momentum[88].

[86] Although this chapter describes the programmatic dimension of the integration of corporate governance within the investment analyses performed by analysts first, and the technological side next, it does not suggest a sequence in the relationship between programmes and technologies. These two aspects, it is argued, were equally important elements of the integration performed by analysts, and they went hand in hand.

[87] But, see Pfeffer (1972).

[88] Dalton, Daily, Ellstrand, and Johnson (1998) performed meta-analyses of 54 empirical studies of board composition and 31 empirical studies of board leadership structure, and their relationships with firm financial performance. A subset of these studies was found "by a combination of computer-aided, key word searches and manual searches of relevant journals" (ibis. 276). The authors "examined the reference lists of the potentially applicable articles and identified further articles the topics or titles of which suggested suitability" (ibis. 276). The anonymous reviewers of their paper also provided "sources for

A large number of studies of the relationship between corporate governance and the financials focused on board composition and board leadership structure, and explored the relationships between these aspects of corporate governance and the financials. As Dalton, Daily, Ellstrand, and Johnson (1998: 269) noted:

> "There is a distinguished tradition of conceptualization and research arguing that boards of directors' composition and leadership structure (CEO/chairperson roles held jointly or separately) can influence a variety of organisational outcomes. This attention continues to be apparent in the academic literature."

These studies contributed to the academic debate over mechanisms of corporate control between agency theory and stewardship theory given the separation of ownership and control in modern corporations[89]. Studies informed by agency theory[90] suggested that outside director representation and firm performance were positively correlated (e.g. Baysinger & Butler, 1985; Ezzamel & Watson, 1993; Schellenger, Wood, & Tashakori, 1989). In contrast, research informed by stewardship theory[91] argued that inside directors were associated with higher firm performance (e.g. Kesner, 1987). Nevertheless, as Dalton et al. (1998) noted, there was research that did not find statistically significant correlations between board composition and firm performance (e.g. Chaganti, Mahajan, & Sharma, 1985; Daily & Dalton, 1992; Kesner, Victor, & Lamont, 1986; Zahra & Stanton, 1988). As can be seen, mixed results were obtained from academic studies of the relationship between some aspects of corporate

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additional relevant articles" (ibis. 276). Out of the 54 studies of the relationship between board composition and firm financial performance they reviewed, 50 studies were published in the 1980s and the 1990s. Out of the 30 studies of the relationship between board leadership structure and firm financial performance they analysed, 29 studies were published after 1980.

[89] It is beyond the scope of this chapter to discuss either agency theory or stewardship theory in detail. These two schools of thought are briefly mentioned here for the purpose of illustrating that academic research that sought to discover the link between corporate governance and the financials was largely informed by these theoretical lenses. For an overview of agency theory, see Jensen and Meckling (1976). For stewardship theory, see Donaldson and Davis (1991).

[90] In general, agency theory suggests that managers who have firm-specific knowledge and managerial expertise are perceived to gain an advantage over the owners, who are largely removed from the operation of the firm (e.g. Mizruchi, 1988). According to agency theory, a corporate board that mostly comprises outside directors is considered to be effective in providing superior performance benefits to the firm because of their independence from firm management.

[91] Stewardship theory argues that managers are trustworthy and inherently work hard to attain a high level of profit for the firm and good shareholder returns (Donaldson & Davis, 1994). This implies that inside directors are potentially beneficial to the firm, since the amount and quality of inside information possessed by these directors may lead to more effective evaluation of top managers (e.g. Baysinger & Hoskisson, 1990).

governance, such as board composition, and corporate performance. Nevertheless, the burgeoning of such studies in the last two decades of the 20th century shows that the potential link between corporate governance and the financials was widely perceived by academics as a significant issue at that time.

The potential link between corporate governance and the financials had also been identified by institutional investors, particularly in conjunction with their activism towards corporations that appeared from the mid-1980s and rapidly flourished in the 1990s[92]. The increasing prevalence of shareholder activism by investment institutions coincided with the rapid growth in institutional investor share holdings both in the US and the UK during the last two decades of the 20th century (Gillan & Starks, 1998; Smith, 1996; Solomon, 2007). "Shareholder activism" was referred to by the European Corporate Governance Institute[93] as "[...] the way in which shareholders can assert their power as owners of the company to influence its behaviour"[94]. Smith (1996: 227), more specifically, regarded shareholder activism as "[...] monitoring and attempting to bring about changes in the organisational control structure of firms [...] not perceived to be pursuing shareholder-wealth-maximising goals". The formation of the Council of Institutional Investors (CII) in the US in January 1985 marked the beginning of shareholder activism by institutional investors (Gillan & Starks, 1998). The Council was formed in an attempt on the part of large public pension funds to lobby for shareholder rights and hold investee companies accountable. In the first few years after the formation of the CII, according to Gillan and Starks (1998), public pension funds in the US exerted their activism to address issues such as the repeal of anti-takeover amendments, changes in voting rules, and increased board independence. Shareholder

[92] Shareholder activism was not new even in the mid-1980s. Before the mid-1980s, especially in the US, individual activists and religious groups had challenged corporations on specific social or moral issues (Hendry, Sanderson, Barker, & Roberts, 2007). Shareholder activism by institutional investors, particularly by self-managed public pension funds, started to emerge, first in the US, from the mid-1980s (Gillan & Starks, 1998; Hendry et al., 2007). From the early 21st century, especially in the UK, the "new shareholder activism" by mainstream institutional investors (e.g. wholesale and retail asset management companies, pension funds, and the investment arms of life assurance companies) started to surface (Hendry et al., 2007). This paper concerns shareholder activism by institutional investors.

[93] According to its website, the European Corporate Governance Institute (ECGI) is a forum for debate and dialogue between academics, legislators, and practitioners. It focuses on major corporate governance issues and promotes best practice. Its primary role is to undertake, commission, and disseminate research on corporate governance. For more information about the ECGI, see http://www.ecgi.org/organisation/overview.htm.

[94] See http://www.ecgi.org/activism/index.php.

activism came to serve as a mechanism of corporate governance that potentially contributed to the governing of corporate conduct, and to the control over corporate managers.

One primary assumption underlying shareholder activism was considered to be the promotion of "sound" corporate governance practices as a means to improve corporate performance and shareholder returns[95] (e.g. Eisenhofer & Levin, 2005). It was believed that by actively engaging in overseeing the management of corporations, institutional investors would be able to press for good corporate governance practices, which it was hoped would in turn translate into improved firm performance and enhanced investment returns. In other words, active shareholders considered that corporate governance and the financials are potentially linked, and that improved corporate governance practices could lead to enhanced financial performance. This was made more explicit by Dale Hanson, former chief executive of the California Public Employees' Retirement System (CalPERS), and a pioneer of shareholder activism:

> "CalPERS has no motives other than to improve corporate performance so that investment value is increased [...]. We seek a return to corporations being accountable to their shareholders. If accountability exists, we are confident that corporate performance will follow." (Hanson, 1993)

The following comment by Alastair Ross Goobey, former chief executive of Hermes Pensions Management in the UK, further stressed that shareholder activism can add to shareholder return, and reinforced the idea that corporate governance and the financials are potentially linked:

> "We see corporate governance not as a moral crusade, but as part of our fiduciary duty to our clients in identifying the business risks, financial and non-financial, to enhance our investment process accordingly [...] Hermes believes that an active shareholder involvement can help release the higher intrinsic value of the

[95] The pursuit of shareholder value was considered as the main driver of shareholder activism. Besides this economic motivation, Hendry et al. (2007) noted the political and moral motivations related to ideas of responsible ownership that also triggered institutional shareholder activism. For the "new shareholder activism" exerted by mainstream institutional investors, "the institutions' own profit maximisation and the need to position themselves against competitor institutions in the context of political and regulatory changes" also motivated these investors to be active (ibis. 223).

> company [... Hermes' activism] grew out of our involvement in corporate governance issues, which if you are not careful could turn into a box-ticking exercise. The question is, what do you do when you come across governance that you don't like? You need some way of... facilitating change." (Quoted in Sparkes, 2002)

Some institutional investors engaged in intensive shareholder activism by investing in companies known for their weak governance practices, with the view of forcing them to improve their corporate governance, and thereby achieve enhanced returns. Lens Ltd., which was established by Robert Monks and Nell Minow in the US in 1989, represented one example of these investment institutions. As noted by Solomon and Solomon (2004: 63-64), Lens targeted and invested in companies such as Sears and Eastman Kodak that had weak governance structures, negotiated with them, and effected changes within the companies. This engagement with initially poorly governed companies was reported as having resulted in substantial increases in the valuation of their shares (see Solomon & Solomon, 2004). In 1998, Lens joined forces with Hermes, a major UK institutional investor, and founded Hermes Lens Asset Management Company in partnership with the British Telecom pension scheme. The same principle, namely, taking stakes in underperforming companies and engaging in shareholder activism to press for change, was adopted by this investment institution. Again, excess investment returns were reported to have been generated (see Solomon & Solomon, 2004). The success of these cases of intensive shareholder activism gave support to the view taken by active institutional investors that corporate governance and the financials are potentially linked.

The perception that shareholder activism can potentially contribute to the financials in a positive manner was explicitly endorsed by some academics, such as Solomon and Solomon (2004: 113):

> "An essential issue in the whole debate about shareholder activism and the role of institutional investors in corporate governance is whether or not such intervention results in higher financial performance in investee companies. [...] There is certainly a perception among the institutional investment community that activism brings financial rewards, as more efficient monitoring of company management aligns shareholder and manager interests and therefore helps to maximize shareholder wealth."

Academics started to study the impact of shareholder activism as a mechanism of corporate governance on corporate performance from the 1990s. For instance, Nesbitt (1994) found that shareholder activism had a significantly positive impact on the financial performance of companies targeted by the CalPERS. In contrast, Faccio and Lasfer (2000) argued that pension funds in the UK did not add value to the companies in which they hold large stakes. Like the results from other studies of the relationship between some aspects of corporate governance and the financials, evidence from academic research on the impact of shareholder activism on corporate performance and investment returns was largely mixed (Solomon & Solomon, 2004: 113). Nevertheless, exploring the link between corporate governance and the financials continued to be an agenda for academic research. The idea that corporate governance and the financials are potentially linked was articulated by both academics and institutional investors throughout the 1990s.

Ideas and discourses related to the potential link between corporate governance and the financials were also promulgated in the public policy making arena. Corporate governance reforms initiated by the American Law Institute (1982) and the Securities and Exchange Commission (1980) in the US in the early 1980s were informed by the idea that corporate governance and the financials are potentially linked. As Baysinger and Bulter (1985: 103) explicitly pointed out:

> "[... T]he [corporate governance] reform movement is based on the idea that shareholder welfare is enhanced by boards of directors which are capable of monitoring management, rendering independent judgments on managerial performance, and meting out rewards on the basis of these evaluations. All else equal, firms with more independent boards should perform better; changes in board composition toward the reformers' prescriptions should improve performance."

The formulation of codes, principles, and standards of corporate governance in the 1990s was also significantly informed by the belief that corporate governance and the financials are potentially linked. For instance, when setting out the responsibilities of the board, the *OECD Principles of Corporate Governance* (OECD, 1999: V) stated that:

> "Together with guiding corporate strategy, the board is chiefly

> responsible for monitoring managerial performance and achieving an adequate return for shareholders, while preventing conflicts of interest and balancing competing demands on the corporation."

It appeared that an underlying assumption behind the statement above was that a responsible corporate board can effectively monitor the actions of managers, which can in turn potentially bring about enhanced investment return to shareholders. In other words, the belief that a responsible board can positively contribute to firm performance seemed to underlie the *Principles* issued by the OECD. Also, Solomon and Solomon (2004: 51 & 131) considered that the *Hampel Report* (1998), which was issued by the Committee on Corporate Governance in the UK[96], was informed by the idea that active institutional shareholders can positively contribute toward the financials of corporations:

> "Pension fund trustees were targeted by the report [i.e. the Hampel Report] as a group who needed to take their corporate governance responsibilities more seriously. [...] It is clearly an implicit assumption of the Hampel Committee and other proponents of shareholder activism that institutional investors' intervention in investee companies produces higher financial returns."

In the first few years of the 21st century, a new wave of corporate governance reforms took place, arguably in response to the outbreak of a series of corporate scandals on both sides of the Atlantic (such as Enron, WorldCom, Global Crossing, and Parmalat). The idea that corporate governance and the financials are potentially linked continued to underlie policy documents issued at that time. For instance, the *Higgs Report* (2003), which examined the role, independence, and recruitment of non-executive directors, stated that:

> "Good corporate governance [...] is an integral part of ensuring successful corporate performance, but of course only a part. It remains the case that successful entrepreneurs and strong managers, held properly to account and supported by effective boards, drive wealth creation. [...] The nominations [of board members] and appointments process is crucial to strong corporate performance as well as effective

[96] As already mentioned in chapter 2, to react to significant corporate failures, such as the Barings Bank, the Committee on Corporate Governance was formed in 1995. This committee produced the *Hampel Report*, which focused on disclosure and emphasised a *principles-based* and voluntary approach to corporate governance, instead of an explicit *rules-based* one.

accountability."

After the outbreak of the corporate scandals in the early 21st century, the OECD called for a survey to assess the *Principles of Corporate Governance* (OECD, 1999) originally issued in 1999 before it considered updating and revising the *Principles*. In the report that documented the survey, the OECD reviewed and summarised the body of "empirical work showing the importance of corporate governance in determining company performance and economic growth" (2004a: 4). This suggested that the idea that corporate governance and the financials are potentially linked was not alien to the notion of corporate governance adopted by the OECD, even if this idea might not explicitly inform the process of assessing and revising the *Principles*.

Not only regulatory bodies, but also investors tended to get even more concerned about corporate governance after the outbreak of the corporate scandals in the early 21st century (e.g. Tricker, 2009; Young, 2003). The link between corporate governance and the financials appeared to be more strongly perceived by institutional investors. A survey of investors undertaken by McKinsey & Company (2002) showed that investors believed that corporate governance can make a difference to the bottom line of a company, i.e. corporate financial performance. The survey reported that the majority of investors surveyed would be willing to pay a premium to invest in a company with good corporate governance. More specifically, according to the survey, investors would be prepared to pay 12% more for the shares of a well-governed UK company, and 14% more for the shares of a well-governed US company, compared to the shares of companies with similar financial performances but poorer governance procedures. As Mallin (2004: 74) commented on the results of the survey:

> "It is [...] the investor's perception and belief that corporate governance is important and that belief leads to the willingness to pay a premium for good corporate governance."

The increasing importance of corporate governance, as perceived by institutional investors and other financial market participants in the early 21st century, paralleled the emergence and rapid growth of corporate governance rating services. The GovernanceMetrics International (GMI), Institutional Shareholder Services (ISS), the

Corporate Library, and the Corporate Governance Service Department at Standard & Poor's came to be the key players in the corporate governance rating industry. As commercial organisations, these rating firms claimed to provide independent corporate governance ratings to institutional investors as well as corporations. Whilst the accuracy and reliability of these ratings, and the independence of the rating firms, had been subject to scrutiny since their emergence (Brown, 2004; Snyder, 2008), the availability of the ratings expanded the scope of academic research on the relationship between corporate governance and the financials. With these ratings, academic scholars started to explore the relationship between the overall quality of the corporate governance procedures of a firm, presumably captured and represented by the single governance metric and corporate performance. For instance, Brown and Caylor (2004) documented that corporations with the higher industry-adjusted Corporate Governance Quotient (CGQ) scores issued by the ISS [97] were associated with better 3-year, 5-year, and 10-year shareholder returns, higher profits, lower stock price volatilities, and higher dividend payouts and yields. However, Daines, Gow, and Larcker (2009) reported that there was no significant correlation between the CGQ scores issued by the ISS and some basic performance metrics, such as restatements of financial results, shareholder lawsuits, return on assets, stock valuation, and risk-adjusted stock price performance. Epps and Cereola (2008) also found no statistical evidence suggesting that the operating performance of firms was related to their ISS corporate governance rating. Similar to prior academic research, this new line of enquiry produced rather mixed results. However, the emergence and rapid growth of corporate governance ratings triggered a wave of academic investigations of the link between these ratings and firm performance. The agenda for exploring the relationship between corporate governance and the financials in the academic community was consolidated with the availability of corporate governance ratings. The idea that corporate governance and the financials are potentially linked was once again being articulated and reflected upon.

[97] ISS issues two Corporate Governance Quotient (CGQ) scores for each company: industry-adjusted CGQ scores, which reflects the standing of a company within its own industry group; and the second score compares the corporate governance practices of a company against a relevant index, e.g. the S&P 500. ISS also produces four sub-scores concentrating on specific areas: board composition, director compensation, quality of audit, and takeover defences. These sub-scores are expressed as quintiles, where '5' indicates that a company is in the top quintile relative to a relevant index or an industry group.

From the late 1990s and the early 21st century onward, the notion of corporate governance itself started to be expanded and redefined[98]. One important aspect of this wider accountability and extended corporate governance was considered to be related to socially responsible investment (Solomon & Solomon, 2004; Sparkes, 2002). According to the Social Investment Forum[99], socially responsible investment:

> "[...] recognizes that corporate responsibility and societal concerns are valid parts of investment decisions. SRI considers both the investor's financial needs and an investment's impact on society. SRI investors encourage corporations to improve their practices on environmental, social, and governance issues."[100]

Socially responsible investment (SRI) used to be a fringe activity carried out by a small number of unit trusts and mutual funds in the US and the UK. However, from the late 1990s it became one of the mainstream considerations by institutional investors, such as pension funds and insurance companies, on both sides of the Atlantic (Sparkes, 2002). Together with corporate governance, environmental and social issues came to be perceived by an increasing number of institutional investors as important and significant factors in their investment decision making processes. The term "ESG"[101], which stands for environmental, social, and corporate governance issues, started to be utilised to capture the simultaneous attention paid by investment institutions to all three criteria (Solomon, 2007: 272). Similar to the perceived link between corporate governance and financial performance, ideas, beliefs, and discourses related to the potential link between "ESG" and the financials also started to surface. For instance, in its *Global Principles of*

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[98] This expanding notion of corporate governance can be explained by stakeholder theory. Stakeholder theory suggests an approach to corporate governance that considers not only the needs of shareholders, but also the needs and requirements of all corporate stakeholders, including employees, suppliers, customers, creditors, the environment, local communities, etc. (Solomon & Solomon, 2004: 188).

[99] The Social Investment Forum is "the U.S. national nonprofit membership association for professionals, firms and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI)". For more information, see http://www.socialinvest.org/.

[100] See http://www.socialinvest.org/resources/sriguide/srifacts.cfm.

[101] The other term, "extra-financial issues" (EFIs) was also created and deployed by financial market participants to capture those factors that are thought of as having fundamental impact on the long-term performance of corporations. For a detailed explanation on issues constituting EFIs, see for instance: http://www.enhancedanalytics.com/portal/ep/contentView.do?channelId=-1073756003&contentOID=1073963300&contentId=1073963300&programId=1073757413&contentType=MISC_INFO. Generally speaking, "EFIs" embraces more elements (such as intellectual capital, wider elements in the supply chain, e.g. suppliers, products and services) than "ESG" which basically includes environmental, social and corporate governance issues.

Accountable Corporate Governance, the CalPERS stated that it

> "[...] believes that environmental, social, and corporate governance issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, and asset classes through time.)" (CalPERS, 2009: 17)

The potential link between ESG issues and the financials was not only perceived by an increasing number of institutional investors and asset owners[102]. Other financial market participants also considered that ESG issues can have material impact upon the financials of corporations. For instance, according to Mercer[103], a consulting firm:

> "[...] ESG or extra-financial criteria (for example, human capital, environmental, social and corporate governance factors) can have a positive affect on long-term corporate performance. [... ESG or extra-financial criteria] are now accepted as having a potentially material impact on financial performance[104].

Fund managers also believed that ESG issues and the financials are potentially linked. For instance, the twenty financial institutions[105] which took part in the Financial Sector Initiative *Who Cares Wins* overseen by The United Nations Global Compact[106] argued that they

> "[...] are convinced that in a more globalised, interconnected and competitive world the way that environmental, social and corporate governance issues are managed is part of companies' overall management quality needed to compete successfully. Companies that perform better with regard to these issues can increase shareholder

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[102] Some of these institutional investors and assets owners have owned a wide range of asset classes distributed among economic sectors that they effectively own a slice of the broad economy. The success of these so-called "universal owners" (cf. Monks & Minow, 1995) depends on the performance of the economy at large. These universal owners are forced to concern about long-term economic prosperity, and hence are forced to consider ESG issues which have been perceived as having financial impacts in the long term (cf. Mercer Investment Consulting, 2006; Solomon, 2007).
[103] Mercer provides investment consulting services. In 2004, it formed a specialist global Responsible Investment (RI) business unit, focusing on RI and ESG issues.
[104] See http://www.mercer.com/referencecontent.htm?idContent=1332515.
[105] These largely comprised fund management firms, insurance companies, and investment banks.
[106] The documents issued by the UN Global Compact are quite intensively drawn upon in this chapter. These are the few official documents that explicitly articulate the idea of and the agenda for integrating ESG issues into the investment decision making process. It is based on these reports that part of the programmatic dimension of the integration of corporate governance within the investment analyses performed by analysts is identified.

> value by, for example, properly managing risks, anticipating regulatory action or accessing new markets, while at the same time contributing to the sustainable development of the societies in which they operate. Moreover, these issues can have a strong impact on reputation and brands, an increasingly important part of company value." (The UN Global Compact, 2004: i)

Accordingly, these financial institutions perceived the consideration of ESG issues in asset management, securities brokerage services, and the associated buy-side and sell-side research functions as highly significant. In particular, the incorporation of ESG issues into the investment decision making process was thought of as being able to help realise and achieve certain broader aspirations and objectives in the economy. It was suggested that:

> "[...] a better consideration of environmental, social and governance factors will ultimately contribute to stronger and more resilient investment markets, as well as contribute to the sustainable development of societies." (The UN Global Compact, 2004: i)

Voices pronouncing on the importance of integrating ESG issues within the investment decision making process also came from other financial market participants. For instance, Kay Carberry, Assistant General Secretary of the Trade Union Congress (TUC) and director of the TUC Superannuation Society in the UK, suggested that:

> "There is a growing recognition amongst pension funds and fund managers that the management of extra financial or intangible issues by companies is essential for their long-term performance. This realisation is not before time. [...] Without comprehensive analysis of these issues, investors will continue to base investment decisions on a partial view." (Quoted in EAI, 2005b)

Taking ESG criteria into account and integrating them in the investment decision making process became an ideal to be sought and an agenda to be pursued. Nevertheless, a common and consistent understanding of how to incorporate corporate governance issues in asset management, securities brokerage services, and the associated buy-side and sell-side research functions was not considered as having been developed (The UN Global Compact, 2004: 1). This implied that how corporate governance could and should be integrated within investment analyses was yet to be explored by actors in the

investment chain, including fund managers, brokers, and buy-side and sell-side financial analysts. The respective roles of these financial market participants in the ESG field, however, was not considered as being clearly specified, either (The UN Global Compact, 2004: i).

As an initial step towards overcoming these potential obstacles, the twenty financial institutions which took part in the Financial Sector Initiative *Who Cares Wins* contributed to the publication of a report, titled "*Who Cares Wins: Connecting Financial Markets to a Changing World*". This report

> "[...] aims to enhance clarity concerning the respective roles of different market actors, including companies, regulators, stock exchanges, investors, asset managers, brokers, analysts, accountants, financial advisers and consultants [in the ESG field]. It therefore includes recommendations for different actors, striving to support improved mutual understanding, collaboration and constructive dialogue on these issues [i.e. ESG issues]." (The UN Global Compact, 2004: i)

This report was the first official document in international financial markets that specified the potential roles played by the different financial market participants in the ESG field. Sell-side financial analysts were regarded in this report as "the specialists best placed to show how ESG issues impact company and investment value" (The UN Global Compact, 2004: 37). They were suggested as having a "leading role" to play in the integration of ESG factors within mainstream investment analyses. In particular, analysts were explicitly requested

> "[...] to take an active role in testing and refining the investment rationale for ESG integration in research and investment decisions." (The UN Global Compact, 2004: 10)

The request for the integration of ESG criteria within the investment analyses undertaken by sell-side financial analysts also came from the twelve financial institutions[107] that constituted the Asset Management Working Group (AMWG) under

[107] These largely consisted of fund management firms and the asset management departments of investment banks.

the United Nations Environment Programme Finance Initiative (UNEP FI). These institutions strongly requested brokerage firm analysts

> "[...] to identify specific [environmental, social and corporate governance] criteria likely to be material for company competitiveness and reputation [... and] to the extent possible to quantify their potential impact on stock price." (The UNEP FI, 2004: 4)

Furthermore, analysts were also encouraged by these financial institutions to "[...] further develop the necessary investment know-how, models and tools in a creative and thoughtful way [...]" in order to "[...] better deal with qualitative information and uncertain impacts related to ESG issues [...]" (The UN Global Compact, 2004: ii & 28). Meanwhile, the United Nations Principles of Responsible Investment (PRI)[108], which were formulated to provide a framework to assist institutional investors to deal with ESG issues, highly recommended institutional investors to "[...a]sk investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis"[109].

To sum up, in the last two decades of the 20th century ideas and discourses related to the potential link between corporate governance and the financials were articulated in three aspects of institutional life: academic research, institutional investment, and public policy making. From the early 21st century, the idea that corporate governance, as part of the "ESG", should be integrated in asset management, securities brokerage services, and investment research started to surface. Taking corporate governance into account in the investment decision making process was also considered as being able to "contribute to stronger and more resilient investment markets" (The UN Global Compact, 2004: i). Furthermore, sell-side financial analysts were perceived to play a crucial role in the integration of corporate governance within investment analyses. These ideas, discourses, and perceptions constituted the programmatic dimension of the integration of corporate governance within the investment analyses undertaken by analysts. These programmatic

[108] The United Nations Principles for Responsible Investment were developed by 20 investment institutions from 12 countries. They were initially launched by the UN Secretary-General at the New York Stock Exchange in April 2006.
[109] See http://www.unpri.org/principles/, in particular, Principle 1.

elements not only shaped, animated, and gave significance to, but were also made operable by the concrete tasks and routines performed by analysts to link corporate governance to the financials.

3. The technological dimension of the integration of corporate governance within the investment analyses performed by analysts

3.1 The agenda of analysts for exploring the integration

Consistent with the widespread perception that a common approach to incorporating ESG issues in the investment decision making process was not yet formulated (The UN Global Compact, 2004: 1), analysts considered their work in the ESG field as exploratory in nature. They put forward an agenda for exploring the way in which corporate governance issues could be integrated within investment analyses. As some analysts indicated:

> "In our research we identify some of the potential implications of corporate governance to the investment process. [...] We identify the facts and behavioural differences impacting a company's governance standards and ***explore*** ways to integrate them into the investment process in a systematic way."(Grandmont, Grant, & Silva, 2004: 6) [Emphasis added by Z. Tan]

A similar description was offered by other analysts:

> "[... W]e offer a detailed framework and extensive data to incorporate Corporate Governance systematically throughout stock selection." (Hudson & Morgan-Knott, 2008: 1)

The agenda put forward by analysts for exploring the integration of governance issues within investment analyses and what they sought to achieve under this agenda were closely aligned with the expectations that other financial market participants, as

documented in various official reports[110] (e.g. The UN Global Compact, 2004, 2005, 2009; The UNEP FI, 2004), placed on analysts and their role in the ESG field. Meanwhile, the work performed by analysts in this field seemed to be strongly informed and influenced by the ideas related to the potential link between corporate governance and the financials that were widely articulated in financial markets. This was clearly reflected in the corporate governance reports produced by analysts, where discourses related to this potential link were further considered and articulated by analysts themselves. For instance, as Hudson and Morgan-Knott (2008: 3) put it:

> "[... We] believe that the quality of corporate governance can affect the volatility of the price of risk, at the level of market, sector, and company, and therefore, can affect the performance of investment portfolios."

Other analysts, such as Grandmont, Grant and Silva (2004: 14), expressed a similar view on the potential link between corporate governance and the financials:

> "We hypothesize that corporate governance standards affect the way a company is run and, consequently, its profitability. It is logical to predict that companies and boards that are focused on maximizing shareholder value tend to be better run and have better returns."

Meanwhile, corporate governance was perceived by analysts as a risk factor in the investment decision making process. As Hudson and Morgan-Knott (2008: 17) emphasised:

> "[... C]orporate governance is potentially a significant source of risk at the level of country, sector, and company."

This perception was also held by the other analysts, such as Grant (2005: 1), who pointed out that:

> "It is now increasingly accepted that corporate governance and extra-financial risk metrics encompassing environmental and social factors

[110] These expectations and perceptions of other financial market participants related to what analysts could and should do in the ESG field as indicated in official documents have been highlighted in section 2 of this chapter.

are components of a company's equity risk premium."

As Grant (2005: 1) continued to suggest:

> "Incorporating these risk metrics [related to ESG factors where corporate governance is a part] into the investment decision-making process is a necessary – and ultimately – profitable step for portfolio managers."

In short, the ideas related to the potential link between corporate governance and the financials and the perception that corporate governance as a risk factor should be considered in the investment decision making process rationalised the investigation by analysts into how governance issues can be integrated within investment analyses. However, the potential link between corporate governance and the financials was not accepted unquestioningly by analysts. Instead, some analysts expressed their mis-trust in this link. For instance, Hudson and Morgan-Knott (2008: 4) argued that they

> "[...] do not believe the governance rating would necessarily explain potential performance in isolation."

Also, they admitted that:

> "[...I]t is unlikely to be very easy to make a direct association between governance and share price performance." (Hudson & Morgan-Knott, 2008: 15)

As a consequence, to pursue the agenda for exploring the integration of corporate governance within investment analyses, analysts first attempted to ascertain the relationships between corporate governance and various financial metrics, although these relationships had been intensively studied before by others, including academics[111]. With some of these relationships being established and ascertained,

[111] As discussed above, analysts expressed their mis-trust in the potential link between governance issues and the financials in their corporate governance reports. They set out to "explore the relationships" between corporate governance and the financials before they "start[ed] to evaluate companies and equity portfolios". Furthermore, the relationships between corporate governance and various metrics of the financials had been studied by academic scholars before. While analysts acknowledged the existence of these studies, they undertook their own investigations into these relationships. As can be seen in section 3.3, analysts explored these relationships by deploying a set of mechanisms and devices, some of which

analysts then explored the way in which corporate governance criteria can be considered in relation to the financials in the investment decision making process. Grandmont and his colleagues explicitly set out these steps in their corporate governance report:

> "We quantify and measure corporate governance standards and explore the relationships between corporate governance and risk (e.g. volatility) and their implications for profitability, stock price performance and equity valuation. With these links we can start to evaluate companies and equity portfolios by comparing their inherent corporate governance risks." (Grandmont et al., 2004: 6)

3.2 Quantification of corporate governance

To ascertain the link between corporate governance and the financials, analysts first attempted to get corporate governance issues quantified and measured. Some analysts (e.g. Hudson & Morgan-Knott, 2008; Walker, 2008) made use of the quantification provided by other interest groups of corporate governance in financial markets, such as corporate governance rating organisations. For instance, the corporate governance ratings provided by the GovernanceMetrics International (GMI) were drawn upon by Hudson and Morgan-Knott (2008)[112]. The rating methodology adopted by the GMI was reviewed and described by Hudson and Morgan-Knott (2008: 6) as follows:

> "The GMI research template is divided into six categories of analysis: Board Accountability; Financial Disclosure & Internal Controls; Shareholder Rights; Executive Compensation; Market for Control & Ownership Base; Corporate Behaviour & CSR Issues. These categories are further divided into sub-sections where, in addition to reviewing company documents, GMI also places a great deal of importance on reviews of regulatory actions, legal proceedings, and other sources to gauge whether company behaviour is consistent with its stated policies. Once the database profiles are complete, a proprietary algorithm is then applied to generate the rating. Ratings run on a scale of 1.0 (lowest) to 10.0 (highest), and are relative. The median is 6.5."[113]

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had not been deployed by academics. It can be argued that analysts examined the link between corporate governance and the financials in a different way as compared to others, such as academics.

[112] Walker (2008) also drew upon the ratings provided by the GMI in his study.

[113] The GMI calculates for each company two overall governance scores (global and regional) together with sub-scores in the six areas. According to the GMI, global ratings are designed to demonstrate how each company's governance profile compares to all others in the GMI universe. Regional ratings are now

The GMI collected a reasonable amount of qualitative information about various dimensions of corporate governance for a wide range of companies, and derived corporate governance scores for these companies. The approach adopted by the GMI and the ratings it generated were appreciated by analysts who relied on the input from the GMI in their integration of corporate governance within investment analyses. As Hudson and Morgan-Knott (2008: 17) put it:

> "Although [...] we do not expect to be able to identify the perfect set of [corporate governance] metrics [...], we believe GMI's research categories are likely to capture a reasonable amount of relevant information."

Nevertheless, some other analysts, such as those at Deutsche Bank, developed their own quantification and measurement of the corporate governance procedures of companies. To quantify and measure corporate governance issues, analysts at Deutsche Bank initially identified corporate governance factors that "[...] represent international best practices as well as being indicators of equity risk [...]" (Grant, 2005: 5). A total of 50 corporate governance factors were identified, and these were treated as 50 data points. Each factor or data point was then being weighed depending on whether it was considered by analysts as a primary, secondary, or tertiary issue of corporate governance best practice (see Figure 13 from Grant, Grandmont, & Silva, 2004: 38 and the extract from Grant, Grandmont, and Silva, 2004: 37 below). Subsequently, "[...] an overall assessment score for each company" was generated, and "[... t]hese scores [were] presented on an absolute scale that ranges from 0% to 100%"[114] (Grant, 2005: 6). For instance, Burberry received a score of 38%, while BHP Billiton Plc was given a score of 82% (Grant, Grandmont, & Silva, 2004: 17 & 31). This indicated that the corporate

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called "home ratings", which reflect how well a company's governance policies and practices compare to those of other companies in its home country or region. For more details on the rating methodology adopted by the GMI, see http://www.gmiratings.com/(epxambeozfoe4faf0we4w155)/about.aspx#methodology.

[114] However, analysts did not explicitly specify in their reports how absolute scores, based on the 50 data points and on the weights given to the primary, secondary, and tertiary issues of corporate governance best practices, were derived. This lack of detail on how the scores were constructed, however, does not significantly affect the empirical analysis of the current chapter. For the purpose of this chapter, what is interesting is the approach of quantifying corporate governance issues adopted by analysts. Knowing how the scores were derived in detail can be the object of further research.

governance system of BHP Billiton Plc tended to be superior to that of Burberry. In addition to measuring absolute standards of corporate governance, the change in the corporate governance procedures adopted by companies over time was also measured. Such change was captured by the momentum score. It was generated, as briefly specified by analysts, through "[...] compare[ing] each company's underlying current governance data to its own available historical data"[115] (Grandmont et al., 2004: 9).

Figure 13: Governance factors segregate by Pillar and degree of significance

Director Independence	
Chairman	*Information*
CEO	**Secondary**
independent Chairman	**Primary**
Number of board members	Tertiary
Number of independent directors	**Primary**
CEO other directorships/positions	**Secondary**
No director attends more than 4 board meetings	**Secondary**
Directors attend more than 4 boards	**Secondary**
Number of board meetings in last FY	**Secondary**
Number of directors with 9+ years tenure	Tertiary
There is a named senior independent director	Tertiary
% independence: Audit, Nom., Remun. Comt.	**Primary**

Information Disclosure	
Directors state compliance with Combined Code	**Primary**
Individual directors attendance is disclosed	**Secondary**
Compensation /policy changes fully explained	**Secondary**
Fully independent audit com w/ at least 3 memb	**Primary**
Total non-audit fees as % of total fee	**Secondary**
Number of audit committee meetings last FY	Tertiary
Audit Com has right to engage outside advisors	Tertiary
Audit Com includes at least 1 financial expert	**Secondary**
Political contributions (GBP)	*Information*
Process for board appraisal is disclosed	**Secondary**
Process for succession planning is disclosed	**Secondary**
Transparent recruiting system for new directors	**Secondary**

Shareholder Treatment	
Each ordinary share has equal voting rights	**Primary**
Other share type	Tertiary
Authorised/issued shares	**Secondary**
All directors face election every year	**Primary**
There is no controlling shareholder	**Secondary**
No persons have right to designate directors	**Secondary**
All new LTIPs/ESOs are put to vote	Tertiary
All voting conducted equitably and by poll	Tertiary
Issued shares under option	**Primary**
Directors required to build up sig. equity stake	**Secondary**
Directors interests	**Primary**
No director has a contract in excess of 1 year	**Secondary**

Corporate Compensation	
CEO appointment year	*Information*
CEO's last FY salary	*Information*
CEO's last FY bonus	*Information*
CEO's other emoluments	*Information*
CEO's share option gains	*Information*
CEO's LTIP gains	*Information*
CEO's Pension gains	*Information*
CEO Total compensation	*Information*
All components of salary are fully disclosed	*Secondary*
Comp. liability on termination of contract stated	Tertiary
All directors with 1+ year of service own stock	**Secondary**
Maximum potential awards are disclosed	Tertiary

Source: PIRC, Deutsche Bank estimates and company data

Source: Grant, Grandmont & Silva (2004: 38)

[115] As for the absolute scores, analysts did not describe in detail how they derived the momentum scores in their corporate governance reports.

Explanation on Primary, Secondary, and Tertiary Issues of Corporate Governance Best Practices

Primary issues: **3x weight** A deliberate stance to disadvantage minority investors or a factor identified as price/valuation sensitive

Secondary issues: **2x weight** A failure to follow international best practice standards

Tertiary issues: **1x weight** A failure to follow pro-active corporate governance policies

Information issues: **no weight** Of relevance to institutional investors but not scored

Source: Grant, Grandmont & Silva (2004: 37)

Quantification of corporate governance was an essential step towards the ascertaining and establishment of the link between corporate governance and the financials, and towards the integration of governance issues in the investment decision making process. Particularly, without quantifying corporate governance issues, statistical analyses on the relationship between corporate governance and the financials can not be performed. Quantification of corporate governance, therefore, constituted a pre-condition for the integration of corporate governance within the investment analyses performed by analysts. Through quantification, qualitative information about corporate governance was transformed into quantitative information, difference between the governance procedures adopted by companies was transformed into magnitude, and a common metric, namely, the corporate governance score was generated (cf. Espeland & Stevens, 1998)[116].

[116] Quantification of corporate governance was not dissimilar to the process of "commensuration" conceptualised by Espeland and Stevens (1998). According to these scholars, commensuration is "the transformation of different qualities into a common metric" (Espeland & Stevens, 1998: 314).

3.3 Ascertaining and making visible the link between corporate governance and the financials

A set of tools and devices were deployed by analysts to ascertain the link between corporate governance and the financials. These tools and devices, which can largely be thought of as inscriptions (e.g. Latour, 1987; Robson, 1992), created new visibilities of the link, and transformed the link from hypothetical and potential to visible, material, and *factual.*

First, analysts undertook portfolio analyses. This kind of analyses drew the attention of the twelve financial institutions that participated in the Asset Management Working Group (AMWG) of the United Nations Environment Programme Finance Initiative (UNEP FI). These financial institutions, which evaluated the study of the materiality of ESG issues to equity pricing undertaken by analysts, considered portfolio analyses as

> "[...] us[ing] financial metrics to compare best from worst performers for a given set of environmental social and corporate governance criteria against existing stock portfolios. The comparison helped analysts evaluate the financial impact of chosen criteria for a given industry sector. This is an important step beyond identifying potential criteria for analysis and determining best and worst performers." (The UNEP FI, 2004: 7)

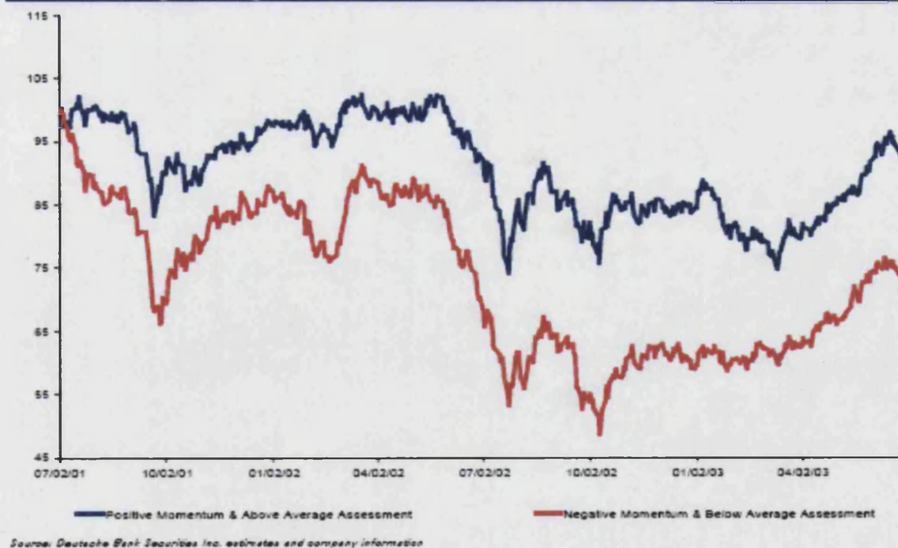
Analysts at Deutsche Bank, for instance, constructed two portfolios from the US S&P500 stocks based only on corporate governance criteria[117] (Grandmont et al., 2004; Grant, 2005; Grant et al., 2004). The first portfolio consisted of stocks with above average[118] absolute corporate governance scores and positive momentum scores over a two-year period, while the second portfolio included stocks with below average absolute corporate governance scores and negative momentum scores over the same period[119]. The respective price performances of the two portfolios between 07/02/2001 and

[117] According to the reports in which the analysis was documented, these two portfolios were "equally weighted to avoid giving extra prominence to larger companies" (Grandmont et al., 2004: 10).

[118] This "average" was the average corporate governance absolute score developed by analysts at Deutsche Bank for companies in the US S&P500 index.

[119] According to the research performed by analysts at Deutsche Bank, a positive momentum score indicates that a company improved its governance practice over a time period, while a negative momentum score suggests that the quality of the governance practice of a company deteriorated.

30/06/2003 were plotted in a graph (see Figure 6 from Grandmont, Grant, & Silva, 2004: 10 below). This graph revealed that the portfolio which consisted of stocks with above average absolute corporate governance scores and positive momentum scores had a higher average market price than the other portfolio over the two-year period. Based on this, analysts at Deutsche Bank concluded that "[c]ompanies with above average assessment & positive momentum outperformed those with below average assessment & negative momentum [...] with a [price] performance differential spread between the portfolios of 18.9%" (Grandmont et al., 2004: 10). This also led to a more general argument put forward by these analysts that "investments in companies with the highest quality of governance structures and behavior have significantly outperformed those with the weakest governance" (Grandmont et al., 2004: 10). By constructing two portfolios based only on corporate governance criteria, tracking their price performances, and revealing the price performance differentials through a graph, the link between corporate governance and share price performance was established as a *fact*, and was made visible. The portfolio analyses and the associated graphs developed by analysts operationalised the widely articulated ideas related to the potential link between corporate governance and the financials.

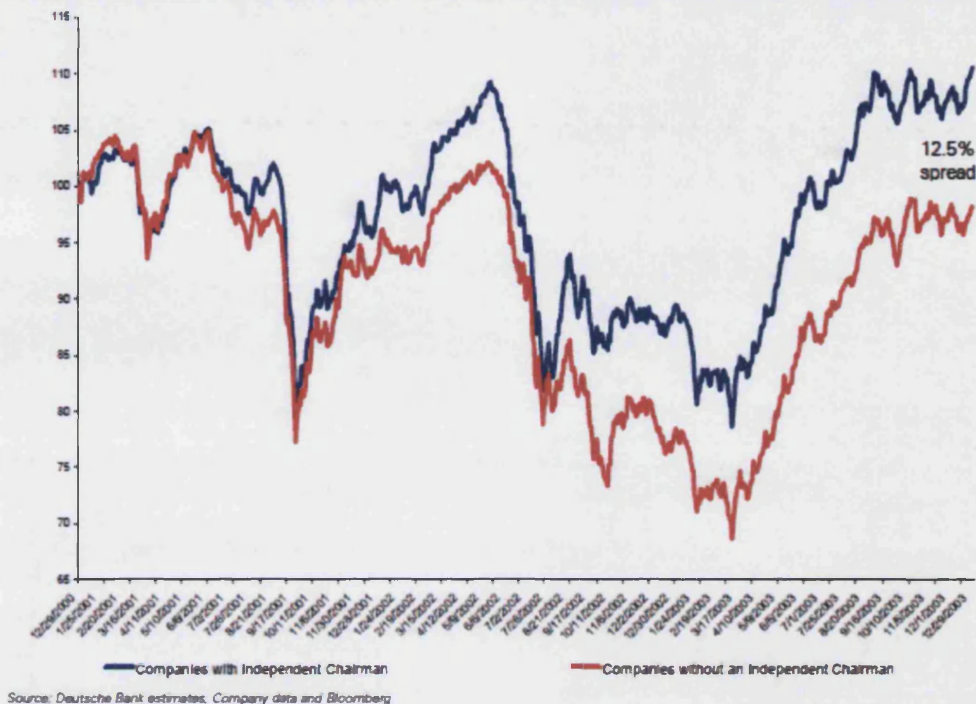


Source: Grandmont, Grant, & Silva (2004)

Portfolios were not only constructed based on the overall corporate governance scores. They were also constructed according to individual corporate governance criteria. For instance, analysts at Deutsche Bank argued that the Chairman of a company has to be independent and that "[...] separation of roles [between the Chairman and the CEO] without a fully-independent Chairman is insufficient protection for investors"[120] (Grant, 2005: 6). Grant (2005) hypothesised that companies with independent Chairmen may outperform those without. He constructed two portfolios with one consisting of companies with independent Chairmen, and the other one consisting of companies without independent Chairmen, and compared their price performances between 2000 and 2003. The respective price performances of the two portfolios over this three-year period were plotted in a graph (see Figure 4 from Grant, 2005: 7 below). In this case, the link between a particular corporate governance criterion, namely, the existence / non-existence of an independent Chairman, and stock price performance was established. A *fact* was constructed, namely that "[...] companies with an independent Chairman outperformed companies without an independent Chairman over the period between December 2000 and December 2003" (Grant, 2005: 6). In particular, this *fact* regarding the relationship between the corporate governance criterion in question and stock price performance was constructed through portfolio analyses and the associated graph created by analysts. It was through the portfolio analyses and the associated graph that the link between the existence / non-existence of an independent Chairman and stock price performance was rendered from hypothetical and invisible, to factual and visible.

[120] Grant (2005: 6) set out several reasons for their suggestion on the separation of the roles between the Chairman and the CEO. These included: the roles are quite distinct; the roles require different aptitudes and temperaments, which are not easily found in a single person; the time horizons over which the Chairman and CEO's success is measured may be different; and formal separation of the roles divorces the task of management oversight from management itself.

Figure 4: Companies with an independent Chairman outperformed companies without an independent Chairman



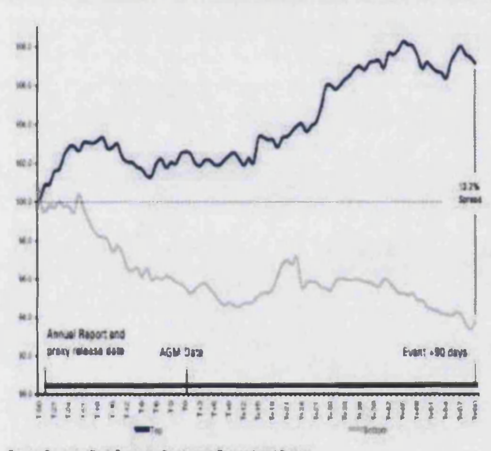
Source: Grant (2005: 7)

Event analyses performed by analysts also made use of the portfolios that were constructed based on the corporate governance rating scores. For instance, analysts at Deutsche Bank drew upon event analyses to examine whether companies in the US S&P500 and the UK FTSE350 announcing positive corporate governance reforms around the annual general meeting (AGM) date would outperform companies disclosing deteriorating standards of corporate governance. According to Grant (2005: 16), two equally weighted portfolios were built for companies “with the most identifiable momentum – top and bottom 5% of each index”[121]. By plotting the price performances of these portfolios in graphs (see Figures 22 and 23 from Grant, 2005: 17 below), Grant (2005: 17) noted that the portfolio of companies disclosing deteriorating governance standards underperformed the portfolio of companies which announced highly positive

[121] This means that one portfolio consisted of stocks of companies whose momentum scores were higher than those received by 95% of companies in the respective stock index, and the other portfolio consisted of stocks of companies whose momentum scores were lower than those received by 95% of companies in the respective stock index.

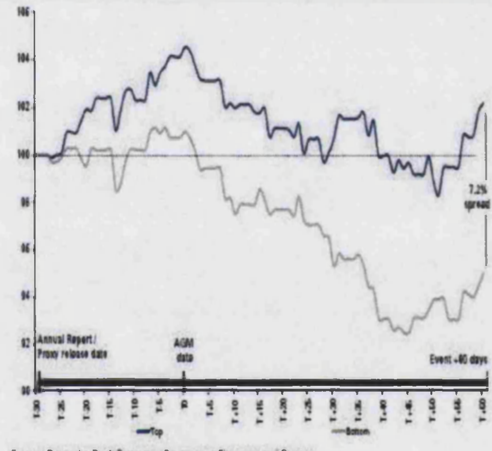
governance reforms over the 90-day analysis period around the AGM date. Once again, by constructing two portfolios based only on corporate governance criteria, tracking their price performances, and visualising the price performance differentials through graphs, the link between corporate governance and the financials was established and made visible. The *fact* that changes in the corporate governance practices adopted by companies had impact on the financials was constructed.

Figure 22: S&P 500 top 5% governance momentum vs. bottom 5%



Source: Deutsche Bank Corporate Governance Research and Factset

Figure 23: FTSE 350 top 5% governance momentum vs. bottom 5%



Source: Deutsche Bank Corporate Governance Research and Factset

Source: Grant (2005: 17)

In order to establish the link between corporate governance and the financials in a statistical manner, regression analyses were performed. Regression analyses had long been deployed by academic researchers to investigate the relationship between corporate governance and the financials. Analysts endorsed this approach, and briefly described how this kind of analyses was supposed to work as follows:

> "In academia, the approach has often been to gather qualitative information relating to the presence or absence of specified features of a specific set of governance provisions or features, and then convert the list into a score that potentially reflects the overall quality of governance. Financial models [according to their reports, analysts essentially meant regression models] are then used to look for relationships with metrics such as share price performance, valuation, or accounting performance (for instance, ROE)." (Hudson & Morgan-

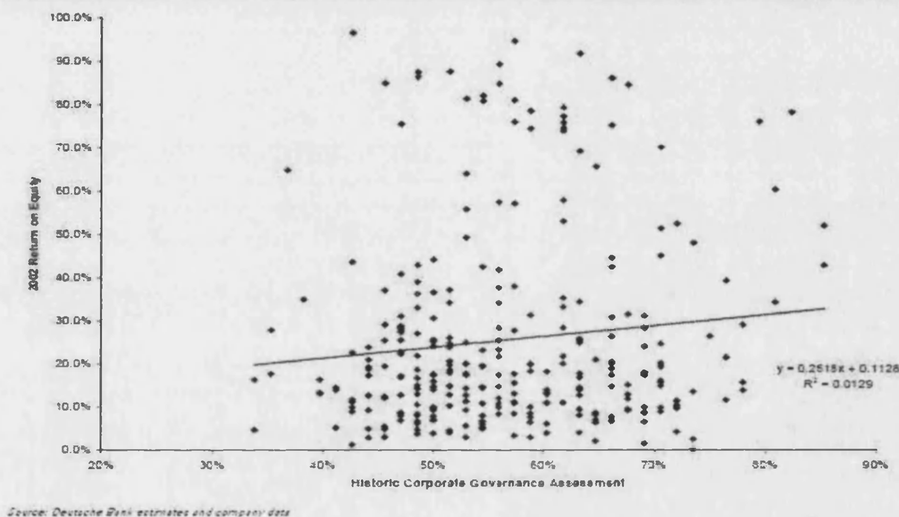
Knott, 2008: 15)

With the corporate governance scores either being provided by corporate governance rating organisations or being internally generated by analysts themselves, in a statistical manner, analysts explored the link between standards of corporate governance achieved by companies which were presumably captured by the corporate governance scores and various dimensions of the financials. For instance, analysts at Deutsche Bank argued that "[...] corporate governance standards affect the way a company is run and, consequently, its profitability" (Grandmont et al., 2004: 14). They hence focused on the relationship between corporate governance and profitability for companies in the UK FTSE350. Three measures of profitability were drawn upon, including Return on Equity (ROE), Return on Assets (ROA), and Earnings Before Interests, Tax, Depreciation and Amortisation (EBITDA) Margin. The quality of the corporate governance procedures adopted by companies was measured by the absolute corporate governance scores that these analysts developed. In order to statistically look for a relationship between firm profitability and corporate governance, analysts ran regressions for the two variables, with profitability being the dependent variable and corporate governance being the independent variable. The regression model, simply speaking, appeared to be:

$$\text{Profitability} = \alpha + \beta \text{Corporate Governance} + \varepsilon$$

It was found that the corporate governance scores were positively correlated to all three measures of profitability. For instance, for the relationship between ROE and corporate governance, the regression result was $ROE = 0.2518 \textit{Corporate Governance} + 0.1128$ (Grandmont et al., 2004: 14). This meant that one unit increase in the corporate governance score would lead to an increase in ROE by 0.2518%. The relationships between each profitability measure and corporate governance were also represented in a series of graphs. From the graph that represented the result of the regression between ROE and corporate governance (see Figure 16 from Grandmont, Grant, & Silva, 2004: 14 below), one can see that the regression line is upward sloping. This suggested that the relationship between ROE, a measure of firm profitability, and corporate governance was positive. With the deployment of the regression analyses, the link between firm profitability and corporate governance was numerically and statistically established.

This link was further visualised and made visible with the regression lines (either upward or downward sloping) being plotted in graphs. A new visibility of the link between corporate governance and the financials was created through the deployment of the regression analyses as well as the graphs that represented the results of the regressions.



Source: Grandmont, Grant, & Silva (2004: 14)

However, the link between corporate governance and the financials can not always be established as originally expected. For instance, although corporate governance and the price earnings ratios (P/E) were perceived to be positively correlated, Walker (2008: 1) noted that:

> "[...] within the UK life insurance sector there appears to be a decreasing relationship between the governance rating [provided by the GMI] and price earning ratios (P/E), although there is no statistically significant data to back up this conclusion[122]."

The results from the investigation of the link between corporate governance and the financials tended to be sector-specific. The conclusion that can be drawn from the investigation also depended on the level of the analysis, namely, individual firm level,

[122] Walker (2008) only focused on seven life insurance companies in the UK.

industry level, or market level. The exploration of the association between corporate governance and the valuation of stocks for companies in the US S&P500 index undertaken by analysts at Deutsche Bank clearly demonstrated this. Three measures of valuation were drawn upon by these analysts: Price to Earnings, Price to Book Value, and Price to Cash Flow. The relationships between each of these measures and standards of corporate governance presumably captured by the corporate governance scores that analysts developed were studied. It was noted by these analysts that:

> "[...] while for the Food & Staples Retailing sector the relationship shows that companies with higher governance standards trade at higher valuation multiples, the same cannot be said for the Capital Goods sector." (Grandmont et al., 2004: 22)

When summarising the results from their regression analyses in a table (see Figure 34 from Grandmont, Grant, & Silva, 2004: 23 below), Grandmont et al. (2004: 23) concluded that:

> "[...] there is no US market-wide correlation between corporate governance and equity valuations."

Figure 34: Governance impact on equity valuation, by S&P 500 sector

	P/E	P/BV	P/CF
Semiconductors & Semiconductor Equipment	Positive	Positive	Positive
Food & Staples Retailing	Positive	Positive	Positive
Materials	Positive	Positive	Positive
Technology Hardware & Equipment	Positive	Positive	Positive
Retailing	Positive	Positive	Positive
Food Beverage & Tobacco	Positive	Positive	Positive
Software & Services	Positive	Positive	Negative
Telecommunication Services	Positive	neutral	Negative
Utilities	neutral	neutral	neutral
Consumer Durables & Apparel	neutral	neutral	Negative
Commercial Services & Supplies	Negative	neutral	neutral
Pharmaceuticals & Biotechnology	Negative	Positive	Negative
Capital Goods	Negative	neutral	Negative
Energy	Negative	neutral	Negative
Media	Negative	neutral	neutral
Health Care Equipment & Services	Negative	Negative	Negative

Source: Deutsche Bank Securities Inc. estimates and company information

Source: Grandmont, Grant, & Silva (2004: 23)

As can be seen, not all perceived relationships between corporate governance and the specific dimensions of the financials can always be established or ascertained. Nevertheless, analysts still strongly considered that corporate governance standards "have an impact on corporate results and longer term equity performance" (Grandmont et al., 2004: 24). The relationships between corporate governance and the various measures of the financials that were established and made visible by the tools and devices deployed by analysts still reinforced the idea that corporate governance should be incorporated into the investment decision making process. Although the links established by analysts seemed to be made-up in some cases, these links justified, and constituted the bases for the integration of corporate governance issues within investment analyses. In addition, the lack of correlation between corporate governance and market valuation of stocks for companies in some industry sectors was considered by some analysts as being induced by the inability of investors to incorporate governance assessments into valuation models on a timely basis due to lack of efficient and effective tools (Grandmont et al., 2004: 24). It was partially for this reason that analysts claimed to develop certain frameworks that may help portfolio managers and investors to "incorporate governance systematically throughout stock selection" (Hudson & Morgan-Knott, 2008: 1).

3.4 Combining corporate governance with the financials

The combination of corporate governance and the financials in investment analyses was explored by analysts mainly on a case-by-case basis. For each case, analysts examined the corporate governance standard of a company in relation to its broader investment thesis. The general principle adopted by analysts was to seek an alignment between the corporate governance assessment of a company and its broader investment thesis related to profitability, equity valuation, and stock price performance.

Such an "alignment" occurred, according to analysts, when a company whose governance rating was above sector average (i.e. governance risk below sector average) enjoyed above sector-average profit, market valuation, and stock price performance, or

vice versa. The notion of "alignment" was largely informed by the positive link between corporate governance and the financials that was either perceived by analyst and other financial market participants, or that was established and ascertained by analysts. In other words, in the case of an "alignment", the corporate governance assessment of a company can be considered as being consistent with the investment thesis based on the financials. When the view on the financials of a company and its governance profile were not in line with each other, further investigation was needed, as suggested by analysts, in order to decide whether or not the stock was worthy of being chosen for investment. The principle of "alignment" was adopted irrespective of how the corporate governance assessment was undertaken, i.e. either by corporate governance rating organisations, or by analysts themselves. For instance, Hudson and Morgan-Knott (2008: 23), who drew upon the corporate governance ratings provided by the GMI, explicitly stated that:

> "[... We] look for an alignment between the overall governance rating according to GMI, and the broader thesis driven by fundamentals, valuation, and/or share price performance, as appropriate."

Hudson and Morgan-Knott (2008) focused on companies in the beverage, household & personal products, life sciences, clothing and fabrics, and food retail sectors. While looking at the beverage sector, Hudson and Morgan-Knott (2008) referred to the research provided by the other analyst, Jason DeRise, who had formulated the investment thesis for companies in this sector[123]. DeRise (2008, quoted in Hudson & Morgan-Knott, 2008) wrote that "[w]e believe Britvic is cheap and defensive". Given this investment thesis, Hudson and Morgan-Knott (2008) examined the extent to which the governance standard of Britvic measured by the GMI rating scores aligned with the financials. Britvic was given high scores by the GMI for both the global rating and the regional rating. This led Hudson and Morgan-Knott (2008: 23) to comment:

> "Britvic is not only "cheap and defensive", but also brings the additional comfort of a strong governance profile."

[123] Jason DeRise was an equity research analyst, while Julie Hudson and Shirley Morgan-Knott were so-called SRI or corporate governance analysts. They all worked in the equity research division of the same brokerage firm, i.e. on the so-called "sell-side".

For Britvic, the corporate governance assessment provided by the GMI aligned with its broader investment thesis. Hudson and Morgan-Knott (2008) agreed that the relatively low level of governance risk suggested by the GMI rating scores was in line with the "buy" recommendation given to Britvic by DeRise.

Nevertheless, inconsistencies between the corporate governance assessment and the broader investment thesis appeared. For instance, Carlsberg was given very low scores by the GMI for both the global rating and the regional rating. However, DeRise (2008, quoted in Hudson & Morgan-Knott, 2008) recommended that investors should "buy" the shares of Carlsberg. Hudson and Morgan-Knott (2008), therefore, sought to find out the reason for this "buy" recommendation based on the research provided by DeRise. As noted by Hudson and Morgan-Knott (2008), DeRise, who was aware of the low GMI rating scores given to Carlsberg, provided a justification for the "buy" recommendation. This was agreed and accepted by Hudson and Morgan-Knott who re-produced the justification provided by DeRise in their own report:

> "Though Carlsberg has a low governance rating, we continue to recommend the stock as Buy. [...] we believe Carlsberg's growth story from S&N cost synergies and ongoing restructuring of the "old" Carlsberg business is compelling and not factored into the current share price." (DeRise 2008, quoted in Hudson & Morgan-Knott, 2008)

As a consequence of this "out of line" analysis, Hudson and Morgan-Knott (2008: 23) suggested that "every situation needs to be considered on its own merits". In other words, the integration of governance issues in the investment decision making process was best to be pursued on a case-by-case basis. Aligning the corporate governance assessment of a company and its broader investment thesis with each other was the fundamental principle for the incorporation of corporate governance into investment analyses. This principle, as emphasised by Hudson and Morgan-Knott (2008), needed to be operationalised with the consideration of the merits of individual circumstances.

A similar approach was adopted by other analysts in their exploration of integrating corporate governance within investment analyses. However, additional tools and devices

were created and deployed by these analysts. For instance, Grant et al. (2004) at Deutsche Bank explored the way in which corporate governance information could be used in combination with financial information in the selection of stocks for investment. They proposed that:

> "Our objective is to incorporate the corporate governance risk factor into the investment decision making process. Therefore, we add corporate governance information as a further layer to traditional fundamental analysis in order to select stocks for inclusion (or exclusion) from portfolios. We contend that adding corporate governance to traditional fundamental analysis allows us to more accurately estimate the potential risk-reward of a security. [...] This analysis allows us to identify companies whose governance-valuation-profitability measures are, in our view, inappropriately priced by the markets, allowing us to generate long and short stock ideas." (Grant et al., 2004: 57)

The "governance-valuation-profitability" analyses were useful, according to Grant et al. (2004), for at least three purposes: "analysing individual companies for investment", for which the analyses were performed to determine whether the stock of an individual company should be invested in; "relative stock comparison", for which the analyses were used to identify the relative merits of two stocks and determine which one should be invested in; and "building portfolios", for which the analyses were performed for the selection of a portfolio of stocks to invest. The combined analyses of corporate governance, valuation, and profitability were undertaken with the deployment of certain representational devices. These were the "governance-to-profitability" graphs and the "governance-to-valuation" graphs that represented the relationship between the corporate governance standard of a company and its profitability or valuation, relative to that of the other firms in the same industry. With the deployment by analysts of the "governance-to-profitability" and "governance-to-valuation" analyses and graphs, the category of corporate governance as a risk factor was explicitly and visibly brought within investment analyses.

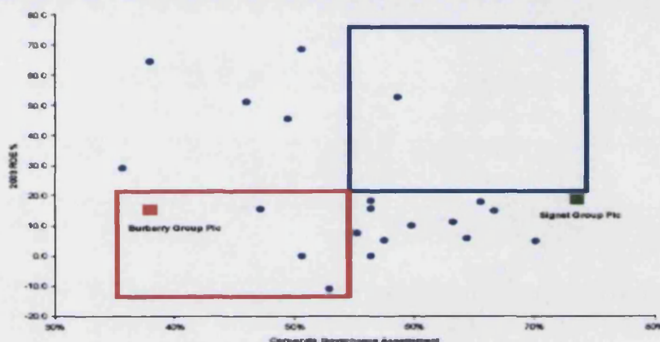
When comparing the relative merits of two stocks from the General Retailers sector, namely, Signet Group Plc and Burberry Group Plc, a "governance-to-profitability" analysis was performed and three "governance-to-profitability" graphs were developed

by analysts: “corporate governance vs. ROE”, “corporate governance vs. ROA”, and “corporate governance vs. EBITDA margin” (see Figures 58, 59, and 60 from Grant et al., 2004: 64 below). For the “corporate governance vs. ROA” graph (Figure 59), the horizontal axis measured the corporate governance scores that analysts developed and offered to companies, and the vertical axis measured Return on Assets (ROA). The horizontal line in the middle of the graph (left half in red and right half in blue) indicated the average ROA for companies in the General Retailers sector, which was roughly 10% in 2003. The vertical line in the middle (upper half in blue and lower half in red) that intersected with the horizontal line in the middle indicated the average corporate governance score for this sector, which was roughly 55%. Since the correlation between standard of corporate governance and ROA would be perceived to be positive, it was considered that a company whose corporate governance score was above the sector average would have an above sector average ROA, and it would capture a position in the top right rectangle of the graph. A company whose corporate governance score was below the sector average would be expected to have a below sector average ROA, and it would appear in the bottom left rectangle. In these two cases, the corporate governance assessment and the broader investment thesis can be thought of as aligning with each other. When a company appeared in the top left or the bottom right part of the graph, the corporate governance assessment of the company and its broader investment thesis can be viewed as being mis-aligned or inconsistent.

According to Figure 59 (from Grant et al., 2004: 64), Signet Group Plc was located in the top right rectangle. This suggested that the corporate governance standard of Signet was consistent with its profitability in 2003. Both of the corporate governance score received by Signet and its ROA exceeded the sector averages. However, Burberry Group Plc appeared in the top left part of the graph. This suggested that the corporate governance standard of Burberry and its investment thesis related to profitability did not align with each other in 2003. In this case, the quality of the corporate governance procedures adopted by Burberry was significantly below the sector average, although this company achieved an above sector average ROA. Together with the similar message suggested by Figures 58 and 60, Grant et al. (2004: 64) noted that:

"[...] on a governance-to-profitability measurement Signet Group Plc shows similar profitability measures to Burberry Group Plc while enjoying much better governance standards. In other words, when compared to Burberry Group Plc, Signet Group Plc offers similar levels of profitability for a lower corporate governance risk."

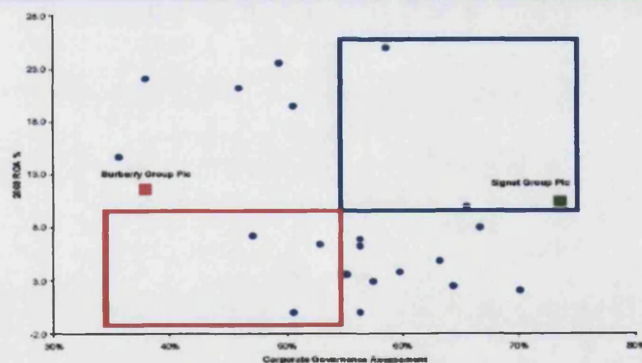
Figure 58: General Retailers sector – corporate governance vs. ROE



Source: Deutsche Bank Securities Inc. estimates and company information

Source: Grant, Grandmont, & Silva (2004: 64)

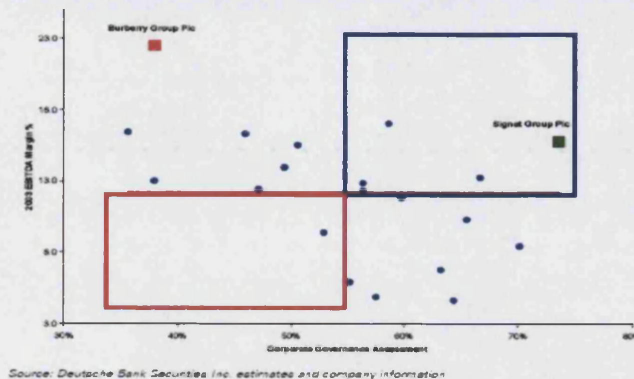
Figure 59: General Retailers sector – corporate governance vs. ROA



Source: Deutsche Bank Securities Inc. estimates and company information

Source: Grant, Grandmont, & Silva (2004: 64)

Figure 60: General Retailers sector – corporate governance vs. EBITDA margin



Source: Grant, Grandmont, & Silva (2004: 64)

Based on the "governance-to-profitability" analysis, between Signet and Burberry, Signet was suggested to be the investment target for "long investing" and Burberry for "short investing"[124]. This investment strategy was further reinforced by the result of a "governance-to-valuation" analysis. For this analysis, three "governance-to-valuation" graphs were created and deployed by analysts: "corporate governance vs. P/E", "corporate governance vs. P/CF", and "corporate governance vs. P/BV" (see Figures 61, 62, and 63 from Grant et al., 2004: 65 below). For the "corporate governance vs. P/E" graph (Figure 61), the horizontal axis measured the corporate governance scores that analysts developed, and the vertical axis measured the Price-to-Earnings (P/E) ratio. The horizontal line in the middle of the graph (left half in red and right half in blue) indicated that the average P/E for companies in the General Retailers sector was roughly 18 in 2003. The middle vertical line (upper half in red and lower half in blue) that intersected with the middle horizontal line indicated that the average corporate governance score for companies in this sector was roughly 55%. As the correlation between standard of corporate governance and the P/E ratio would be perceived to be positive, it was considered that a company whose corporate governance score was above the sector average would have an above sector average P/E ratio, and it would capture a position in the top right part of the graph. A company whose corporate governance score was below

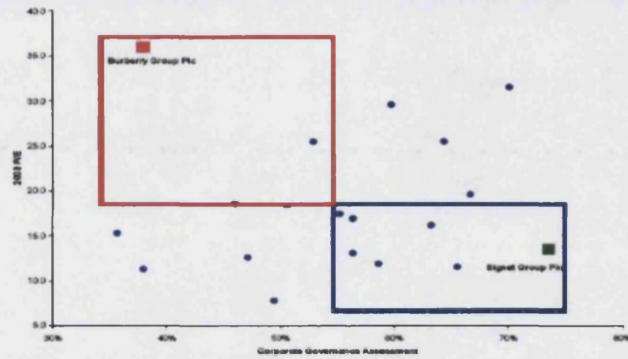
[124] In the case of "long investing", according to Grant et al. (2004), the stock of a company with an above average governance assessment, improving momentum, and low valuation will be bought by investors. In contrast, in the case of "short investing", an investor may wish to sell the stocks of high governance risk companies (i.e. below-average assessment with declining momentum) that trade at valuation premiums.

the sector average would be expected to have a below sector average P/E ratio, and it would appear in the bottom left part of the graph. In these two cases, the corporate governance assessment and the broader investment thesis driven by equity valuation can be viewed as being consistent with each other. However, when a company appeared in the top left or the bottom right rectangle of the graph, the corporate governance assessment of the company can be thought of as being out of line with its broader investment thesis.

According to Figure 61, Signet Group Plc appeared in the bottom right rectangle. This suggested that the corporate governance standard of Signet and its market valuation were not consistent with each other in 2003. Although Signet received a corporate governance score that was higher than the sector average, its P/E ratio was below the sector average. In contrast, Burberry Group Plc appeared in the top left part of the graph. This indicated that the governance standard of Burberry and its investment thesis related to valuation did not align with each other in 2003, either. In this case, the governance standard of Burberry was significantly below the sector average, whilst its P/E ratio was significantly higher than the sector average. Together with the similar message suggested by Figure 63, Grant et al. (2004: 65) pointed out that:

> "In the governance-to-valuation graphs [...] we notice that Signet Group Plc trades at a significant valuation discount to the sector on a P/E and P/BV basis while enjoying a much lower governance risk factor than the average company in the sector. Conversely, Burberry Group Plc trades at valuation rates that are much richer than the sector average while having a higher corporate governance risk than the sector average."

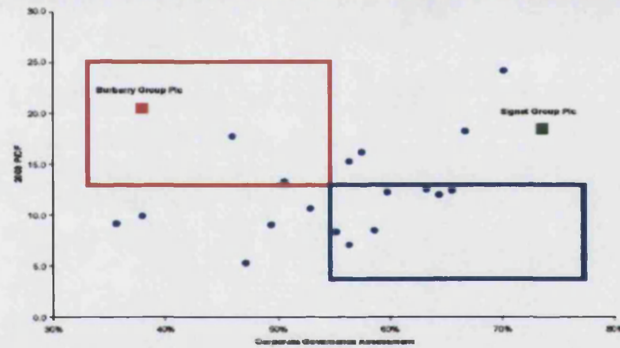
Figure 61: General Retailers sector – corporate governance vs. P/E



Source: Deutsche Bank Securities Inc. estimates and company information

Source: Grant, Grandmont, & Silva (2004: 65)

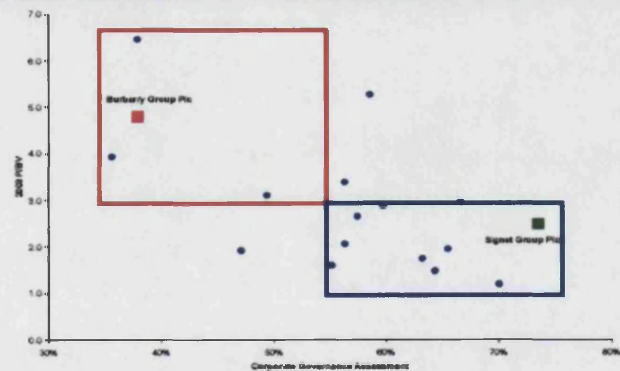
Figure 62: General Retailers sector – corporate governance vs. P/CF



Source: Deutsche Bank Securities Inc. estimates and company information

Source: Grant, Grandmont, & Silva (2004: 65)

Figure 63: General Retailers sector – corporate governance vs. P/BV



Source: Deutsche Bank Securities Inc. estimates and company information

Source: Grant, Grandmont, & Silva (2004: 65)

Based on the insights generated from the analyses above, investors who "long" the shares of Signet Group Plc and "short" those of Burberry Group Plc would expect to make a profit. This investment strategy was informed simultaneously by the corporate governance assessment of companies and the broader investment thesis. In particular, the "governance-to-profitability" and "governance-to-valuation" analyses and graphs that were deployed by analysts brought corporate governance within the investment decision making process, put corporate governance information and financial information together, and made the integration of corporate governance within investment analyses possible and visible. The ideas related to the potential link between corporate governance and the financials and that governance issues should be incorporated into the investment decision making process were made operable by the "governance-to-profitability" and "governance-to-valuation" analyses and graphs. These tools and devices utilised by analysts helped realise the ideal of taking into consideration corporate governance and integrating this factor in the investment decision making process. Both the corporate governance standards and the financials of companies were translated by these tools and devices into a form that companies as potential investment objects could be focused on, discussed, compared, and subsequently acted upon. Both corporate governance and the broader investment thesis were simultaneously captured and represented in the "governance-to-profitability" and "governance-to-valuation" analyses and graphs. Institutional investors and asset managers could potentially make use of the information generated from these analyses and graphs as an input in the process of formulating their investment strategies. The "governance-to-profitability" and "governance-to-valuation" analyses and graphs enabled corporate governance risk to be considered within *centres of investment decision making*[125], where institutional investors and fund managers could be in the know about the investment potentials of companies, and where investment decisions could possibly be made.

To sum up, analysts put forward an agenda for integrating corporate governance within investment analyses. In order to proceed, various governance issues were first quantified and corporate governance scores were generated for companies. This quantification of

[125] This term is inspired by the notion of "centres of calculation" (Latour, 1987).

corporate governance provided a pre-condition for analysts to ascertain the link between corporate governance and the financials, which was the next step of the integration. For this second step, a bundle of tools and devices was deployed by analysts to establish the link between corporate governance and the financials. These included portfolio analyses, event analyses, and regression analyses. The link was also made visible with the deployment of certain representational devices by analysts, such as graphs. With such a link, the integration of governance issues within investment analyses was performed by analysts on a case-by-case basis. As the last but the most important step, analysts explored the way in which the corporate governance assessment of a company could be considered in relation to its broader investment thesis driven by share price, profitability, and valuation. Again, a bundle of tools and devices (e.g. "governance-to-profitability" and "governance-to-valuation" analyses and graphs) was developed by analysts to investigate the extent to which the corporate governance assessment of a company and its broader investment thesis aligned with each other.

Analysts were still at an early stage of exploring the integration of corporate governance within investment analyses. However, in a report issued by The United Nations Global Compact (2009), titled "*Future Proof? Embedding Environmental, Social and Governance Issues in Investment Markets*", analysts were praised for their achievement "[...] in developing the analytical frameworks and demonstrating the rationale for ESG integration in investment research [...]" in the last couple of years (The UN Global Compact, 2009: 8). The report also suggested that analysts

> "[...] have demonstrated that quantifying financial impacts of ESG issues, in spite of their often uncertain and long-term character, is absolutely within the reach of the analysts' profession." (The UN Global Compact, 2009: 23)

4. Discussion

This chapter has examined the integration of corporate governance within investment analyses explored by analysts. The empirical analysis has been informed by the

conceptualisation that economic calculation is constituted by both "programmatic" and "technological" dimensions, and by the ensemble formed between the two (e.g. Mennicken et al., 2008; Miller, 2008a, 2008b; Miller & Rose, 1990; Miller & Rose, 2008; Power, 1997; Rose & Miller, 1992). As an emerging form of economic calculation, the integration of governance issues within investment analyses was, it has been suggested, constituted by an interplay of ideas, discourses, mechanisms, tools, and devices.

During the last two decades of the 20th century, ideas and discourses related to the potential link between corporate governance and the financials were widely promulgated in academic research, institutional investment, and public policy making. From the early 21st century or so, the idea that corporate governance and other extra-financial issues should be considered in asset management, securities brokerage services, and the associated buy-side and sell-side research functions started to surface. The consideration of governance issues in the investment decision making process also came to be seen as being attached to and connected with certain wider objectives and aspirations in the economy. For instance, combining corporate governance with the financials in the investment decision making process was thought of as potentially able to "contribute to stronger and more resilient investment markets" (The UN Global Compact, 2004: i). Furthermore, a number of financial market participants felt strongly that analysts could have a "leading" and "active" role to play in incorporating governance issues in the investment decision making process. These ideas, discourses, and perceptions constituted the programmatic aspect of the integration of corporate governance within the investment analyses pursued by analysts. They shaped, animated, and gave significance to the more or less concrete tasks performed by analysts to actually link corporate governance to the financials.

These ideas, discourses, and perceptions, however, were made operable by the mechanisms, tools, and devices deployed by analysts. Quantification of corporate governance issues, corporate governance scores, portfolio analyses, event analyses, regression analyses, "governance-to-profitability" analyses, "governance-to-valuation" analyses, as well as the various graphs deployed by analysts operationalised the idea of

incorporating corporate governance into the investment decision making process. These technologies can also be considered as being able to help realise the aspiration and fulfil the objective of making and developing "stronger and more resilient investment markets" (The UN Global Compact, 2004: i). The integration of corporate governance within the investment analyses pursued by analysts, as an emerging form of economic calculation, was not neutral or purely technical. Instead, it was attached to and linked with certain ideals, aspirations, and objectives in financial markets. The programmatic and the technological dimensions of the integration of corporate governance within the investment analyses performed by analysts went hand in hand here as elsewhere, with each dimension being the condition of operation for the other (cf. Mennicken et al., 2008; Miller, 2008b: 25). While this chapter endorses the "technological turn" in economic sociology, the insights from the chapter have suggested that the ideas, rationales, and idealised schemata that the mechanisms, tools, and devices are connected with need equal attention in order to fully understand the pre-conditions and implications of a particular form of economic calculation.

Through the exploration of the integration of corporate governance within investment analyses, the link between corporate governance and the various dimensions of the financials was established and ascertained by analysts. This link, originally perceived as potential and hypothetical, was rendered material, visible, and *factual*, by the tools and devices that analysts deployed. In particular, the *fact* that corporate governance and the financials are linked was represented in various graphs, which can be viewed as inscriptions (Latour, 1987; Robson, 1992). The inscribing of the link between corporate governance and the financials into these graphs gave new visibilities to such a link, and visualised the link in new forms. Also, corporate governance issues, which appeared to be hidden in the traditional investment analyses, were brought together and considered in combination with the financials in the integration performed by analysts. In particular, a bundle of tools and devices developed by analysts, such as the "governance-to-profitability" and "governance-to-valuation" analyses and graphs, made visible the category of corporate governance as a risk factor in the investment decision making process. These tools and devices prompted a new kind of visibility for certain aspects of corporate governance, and opened a new window for a wide range of financial market

participants to possibly look into.

In short, the tools and devices deployed by analysts in the integration of governance issues within investment analyses, like those mechanisms and devices deployed by analysts in their evaluations of corporate governance discussed in chapter 3, can be thought of as *transparency making devices* (Grossman et al., 2008a: 98). In the present context, "transparency" relates to the visibility of the link between corporate governance and the financials, and the visibility of the category of corporate governance as a risk factor in the investment decision making process. More specifically, the link between corporate governance and the financials was constructed as a *fact*, and represented in various graphical forms. Also, the transparency making devices made visible corporate governance risk in such a way that corporate governance could be easily picked up and readily brought within the investment decision making process.

Chapter 5

ANALYSTS AS AGENTS OF TRANSPARENCY: CONCLUSION

1. Introduction

Across the past decade or so, debates concerning corporate governance have focused increasingly on the roles that the broader constituents of the investing public and society may play (e.g. Brennan & Solomon, 2008; Cadbury, 2006; Engwall, 2006; World Bank, 2000). These broader constituents have been defined as including private sector agents, self-regulating bodies, the media, investment and corporate governance analysts, financial advisors, financial institutions, governments, civil society, and other significant counterparts and stakeholders of corporations. It has been proposed that these broader constituents can contribute to expanding the mechanisms of corporate governance, and potentially supplement the prevailing mechanisms, such as the board of directors and related committees, external audit, internal control, as well as institutional investor engagement with investee companies. This thesis has focused primarily on one particular set of these broader constituents, namely, sell-side financial analysts. By studying the "doing" of corporate governance by analysts in the US and the UK across the last decade, the thesis has described and analysed some of the ways in which analysts worked on corporate governance issues and performed investment analyses beyond the financials. The thesis has also sought to consider the extent to which, and in what ways, the corporate governance work pursued by analysts can potentially contribute to the governing of corporate life.

This thesis has investigated the multiple and dispersed factors that gave rise to the doing of corporate governance by analysts in the early 21st century. It has also concentrated on two particular aspects of the corporate governance work pursued by analysts, namely, the evaluations of the corporate governance procedures adopted by companies, and the integration of governance issues within investment analyses. This thesis has argued that

analysts can be viewed as *agents of transparency* in financial markets, in so far as they have deployed certain *transparency making devices* when working on corporate governance issues. By "doing" corporate governance, analysts have made corporate governance visible and transparent. More specifically, analysts have created new visibilities of the corporate governance procedures adopted by companies, transformed the link between corporate governance and the financials from hypothetical and potential to material, visible, and factual, and helped make the category of corporate governance a risk factor in the investment decision making process.

This chapter provides some concluding reflections on the doing of corporate governance by analysts, as examined in this thesis. The following section summarises the main research findings of this study. Next, the chapter further elaborates upon the key theme of the thesis, namely, analysts as *agents of transparency*, and discusses the implications of the doing of corporate governance by analysts. This chapter also reflects upon the theoretical lenses and concepts that have informed the empirical analyses in chapters 2, 3 and 4, and offers observations on the empirical materials utilised in this research. The chapter concludes with a discussion of the implications of the current study for future research.

2. The doing of corporate governance by analysts

The term *doing corporate governance* has been used in this research to designate the phenomenon that some sell-side financial analysts in the US and the UK have started to work on corporate governance issues, and have brought corporate governance within the boundaries of their work territory since the early 21st century. This thesis has focused on the emergence of this phenomenon, the corporate governance evaluations performed by analysts, and the integration of corporate governance within the investment analyses undertaken by analysts. Empirical investigations into these interrelated dimensions of the doing of corporate governance by analysts have been undertaken in chapters 2, 3 and 4 of the thesis.

The first issue, addressed in chapter 2 of this thesis, was the *emergence* of the doing of corporate governance by analysts in the US and the UK in the early 21st century. The dispersed pre-conditions that made possible the appearance and development of the corporate governance work pursued by analysts were explored. The empirical analysis of this chapter involved an examination of a multiplicity of rationales, discourses, institutions, practices, processes, and events that conditioned and facilitated the emergence of the doing of corporate governance by analysts[126]. This chapter considered three different, but interrelated arenas in which the corporate governance work undertaken by analysts was perceived as indispensable by a diverse group of agents and agencies in the early 21st century. These three arenas were labelled as investment research, the regulatory framework for sell-side financial analysts, and corporate governance. As suggested in chapter 2, the corporate governance work performed by analysts came to be seen as the focus of varied attentions in the three arenas. For instance, investment research performed by analysts which takes into account corporate governance and other extra-financial issues was considered as a proposed solution to the problem associated with the short-term focus of sell-side investment research in particular, and to the wider problem of short-termism in financial markets in the early 21st century in general. Also, when faced with the uncertainty triggered by the regulatory reforms concerning the traditional analyst business model, performing research on corporate governance and other extra-financial issues led brokerage firms to further adapt and transform the organisation of sell-side research. Furthermore, reforming corporate governance was widely articulated as an agenda in financial markets in the US, the UK, and globally during the 1990s and in the first few years of the 21st century. This agenda, together with the perception that analysts are "gatekeepers" in the corporate system, made it possible for analysts to embark upon work on corporate governance and to undertake investment analyses beyond the financials. In short, a

[126] As documented in chapter 2, rationales and discourses related to, for instance, "long-termism", "creating long-term value", "re-establishing the integrity of the financial services industry", "restoring investor confidence", among others; institutions included the SEC, the FSA, the OECD, the World Bank, among others; practices included, for example, the allocation by those assets owners and managers that had joined the EAI of a minimum of 5% of their broker commissions to sell-side firms based on how well analysts integrate analysis of extra-financial issues; processes included, for instance, the formulation and enactment of corporate governance rules, guidelines, and codes in the US, the UK, and globally after the outbreak of the corporate scandals in the early 21st century; and events included, for example, the investigation led by the former New York Attorney General (NYAG) Eliot Spitzer into ten Wall Street firms and two individual sell-side analysts to address the issue of analyst conflicts of interest in 2002.

range of factors, not just immediate concerns about corporate governance, gave rise to the corporate governance work pursued by analysts. A complex interplay of rationales, discourses, institutions, practices, processes, and events, made possible the doing of corporate governance by some analysts in the US and the UK across the last decade.

Chapter 3 concentrated on one aspect of the doing of corporate governance by analysts, namely, the way in which evaluations of the corporate governance procedures adopted by companies were performed by analysts. While the corporate governance procedures of companies have also been assessed by other organisations external to companies, such as by corporate governance rating firms, this chapter revealed the specific features of the corporate governance evaluations undertaken by analysts. It reported that regulations of corporate governance as specified in stock market listing rules, international and national governance codes, company laws, and financial regulations were frequently referred to by analysts in their corporate governance evaluations. In particular, analysts directly and explicitly benchmarked the corporate governance procedures adopted by companies against these formal regulatory requirements. However, regulations were not neutrally applied by analysts. Instead, analysts unpacked, elaborated upon, and re-interpreted the regulatory requirements. When considering certain regulatory requirements as problematic, analysts proposed alternative or additional "best practice" recommendations regarding corporate governance, and employed them in their corporate governance evaluations.

In addition, chapter 3 documented that analysts frequently made comparisons of the corporate governance procedures adopted by different companies. These comparisons were not only made and represented in the narratives of the corporate governance reports, but were also facilitated by the various lists and tables created and deployed by analysts. The inscribing of the corporate governance procedures of different companies into narratives, lists, and tables allowed the creation of new forms of visibility of the governance of corporations. Chapter 3 further argued that the corporate governance procedures of companies were transformed into a form that they can be further examined and assessed by other participants in financial markets (e.g. institutional investors) ex-post the corporate governance evaluations performed by analysts.

The other aspect of the doing of corporate governance by analysts, namely, the integration of corporate governance within investment analyses, was examined in chapter 4. That chapter argued that the linking of corporate governance to the financials, and the integration of governance issues within investment analyses, was shaped and animated by certain ideas, discourses, and idealised schemata that were widely articulated in financial markets. These included the ideas and discourses related to the potential link between corporate governance and the financials that were promulgated in academic research, institutional investment, and public policy making during the last two decades of the 20th century. They also consisted of the idea and objective of taking governance issues into consideration in asset management, securities brokerage services, and the associated buy-side and sell-side research functions, and the perception by other financial market participants that analysts have a "leading" and "active" role to play in linking governance issues to the financials. The work performed by analysts to integrate corporate governance within the investment decision making process was also attached to and linked with some broader aspirations and objectives. For instance, the consideration and incorporation of corporate governance within investment analyses came to be viewed as being able to help "contribute to stronger and more resilient investment markets" (The UN Global Compact, 2004: i).

Chapter 4 also argued that the ideas, discourses, ideals, and aspirations, however, were made operable by a bundle of mechanisms, tools, and devices deployed by analysts in their concrete tasks and routines of linking corporate governance to the financials. Quantification of governance issues, corporate governance scores, portfolio analyses, event analyses, regression analyses, "governance-to-profitability" analyses, "governance-to-valuation" analyses, as well as the various graphs constituted the technologies deployed by analysts in the integration. They made operable the ideas related to the potential link between corporate governance and the financials. These technologies also operationalised the ideal of incorporating corporate governance in the investment decision making process, and facilitated the realisation of certain aspirations and objectives in financial markets. Furthermore, with these mechanisms, tools and devices deployed by analysts, the link between corporate governance and the financials

was transformed from hypothetical and potential to material, visible, and factual. The category of corporate governance as a risk factor was made visible, and brought within the investment decision making process.

3. Analysts as agents of transparency deploying transparency making devices

Across the last three decades, "transparency" has come to be seen as an ideal to be sought and an objective to be achieved in various aspects of economic and social life, and across arenas of business governance, public policy making, and institutional design. Transparency has become a rationale for governing individuals, organisations, the economy, and society, and has constituted an "organising principle" that guides the administration and control of economic, political, and social affairs and activities (cf. Garsten & Lindh-de-Montoya, 2008). As one of the key constituents of contemporary "programmes of government" (e.g. Miller & Rose, 1990; Miller & Rose, 2008; Rose & Miller, 1992) , ideas and discourses related to "transparency" have been elaborated in government documents, reports from business, financial institutions, and professional bodies, and academic publications. In the field of corporate governance, together with notions such as accountability, responsibility, and integrity, transparency has become one of the key ideas underpinning corporate governance reforms, and it has informed a range of proposals and documents concerning corporate governance, such as the UK Cadbury Report (1992), the OECD Principles of Corporate Governance (2004b), and others. While a single and consistent definition of transparency is rarely found, transparency is often associated with revealing and disclosing information about the financial, operational, and governance aspects of corporations (e.g. Business Roundtable, 2002; Cadbury, 1992; FRC, 2003; NYSE, 2003; OECD, 2004b). Certain *technologies*, such as accounting and auditing, have traditionally been considered as capable of operationalising the abstract ideal of transparency, and helping to make the various aspects of corporations visible to shareholders and other stakeholders. In so far as accounting and auditing have the capacity to make visible certain aspects of corporate conduct, they have been viewed as "transparency making devices" (Grossman et al.,

2008b: 98)[127].

In *doing* corporate governance, as this thesis has argued, analysts have rendered corporate governance visible and transparent. Transparency has specifically been referred to in the current study as the visibility of the corporate governance procedures adopted by companies, of the link between corporate governance and the financials, as well as of the category of corporate governance as a risk factor in the investment decision making process. This thesis has concentrated on the form and format of visibility of the various aspects of corporate governance. It has also concentrated on the technologies deployed by those analysts that have transformed the ways in which these aspects of corporate governance have come to be perceived, and how they have created new forms and modes of visibility. Information about the corporate governance procedures adopted by a company is often disclosed and presented in the annual reports of the company, and can also be found in reports issued by corporate governance rating firms to the individual company. In the corporate governance evaluations undertaken by analysts, analysts collected and compiled information about the corporate governance procedures adopted by different companies. This facilitated the creation of a new comparative space in which different governance systems could be readily compared. Comparisons were further facilitated through the deployment by analysts of various types of representational devices, such as narratives, lists, and tables, that allowed the corporate governance procedures adopted by different companies to be made newly visible, comparable, and assessable.

The link between corporate governance and the financials was initially conceived in terms of its potential. Through the integration of corporate governance within the investment analyses performed by analysts, this link was not only ascertained by analysts through portfolio analyses, event analyses, and regression analyses. This link was also represented and visualised in various forms of graphs that were created and deployed by analysts. In other words, the link between corporate governance and the financials was no longer simply hypothetical and potential; instead, it became factual, material, and visible. Furthermore, with the deployment of other tools and devices by

[127] Chahed (2009) also views accounting as "technology of transparency" that operationalised programmes of co-governing the British economy in public-private partnership around the mid-1990s.

analysts in the integration, such as the "governance-to-profitability" and "governance-to-valuation" analyses and graphs, the category of corporate governance as a risk factor was rendered calculable, and brought within the investment decision making process. Through these developments, corporate governance, which was previously invisible, or somehow hidden in the investment decision making process, became visible, and could be explicitly considered together with the financial metrics, such as firm profitability, stock price performance, and equity valuation.

The mechanisms, tools, and devices, such as narratives, lists, tables, graphs, and financial and statistical models, that analysts deployed to make aspects of corporate governance visible, are largely material, mundane, and humble in nature (cf. Miller & Rose, 1990). However, these mechanisms, tools, and devices came to be endowed with a much wider significance. They made the corporate governance procedures of companies, the link between corporate governance and the financials, and the category of corporate governance itself as a risk factor in the investment decision making process, something that could be known to and examined by constituents of the investing public. They rendered these aspects of corporate governance visible, measurable, comparable, calculable, and amenable to being acted upon. These mechanisms, tools, and devices also made aspects of corporate governance susceptible to further evaluation, calculation, and intervention that can potentially be performed by institutional investors and other financial market participants. No matter how material, mundane, and humble they were, these mechanisms, tools, and devices unveiled certain hitherto hidden aspects of corporate governance, prompted a kind of visibility, and opened new windows for a wide range of financial market participants to look into and focus on. These mechanisms, tools, and devices contributed to the operationalisation of the ideal of "transparency", and helped realise the aspiration of making corporate conduct visible in financial markets. These mechanism, tools, and devices constituted a bundle of "transparency making devices" (cf. Grossman et al., 2008b: 98) that can potentially add to and supplement the prevailing devices, such as accounting and auditing, in helping make things visible and transparent in financial markets.

Analysts, as a subset of the important and significant counterparts and stakeholders of

corporations, have recently been proposed as having a potential role to play in corporate governance (e.g. Cadbury, 2006; Engwall, 2006; World Bank, 2000). However, what analysts can potentially do to add to and supplement the prevailing mechanisms of corporate governance, the extent to which and the ways in which they might contribute to the governing of corporate life, have not been explicitly suggested or explored. As this thesis has documented and argued, the deployment of a bundle of transparency making devices for doing corporate governance has allowed analysts to make key aspects of corporate governance visible and transparent. Hence the argument advanced here is that analysts should be viewed as *agents of transparency* in financial markets. This means that analysts are potentially capable of inventing and injecting visibility in the corporate system, contributing to unveiling certain hidden aspects of corporate conduct, and enabling and facilitating the operationalisation of the perceived ideal of transparency in financial markets. Traditionally, accountants and auditors have been assumed at least by regulatory bodies and policy makers to be responsible for revealing aspects of corporate conduct to shareholders and other stakeholders (e.g. Business Roundtable, 2002; Cadbury, 1992; FRC, 2003; NYSE, 2003; OECD, 2004b). Analysts, who have been viewed as agents of transparency, can potentially contribute to complementing accountants and auditors in making aspects of corporate governance visible and transparent. Furthermore, analysts have traditionally been regarded as information intermediaries and as "gatekeepers" in the corporate system (e.g. Coffee, 2006; Fuchita & Litan, 2006; Healy & Palepu, 2003). The role of analysts as agents of transparency is, however, not to be considered as replacing these existing roles. Instead, it is considered as extending and expanding the overall role played by analysts in financial markets. In short, by making aspects of corporate governance visible and transparent through the deployment of a bundle of transparency making devices for doing corporate governance, analysts extended their role in financial markets to become agents of transparency, and constituted an expanding mechanism of corporate governance (cf. Brennan & Solomon, 2008). Analysts as a subset of the significant and important counterparts of corporations, it is suggested, should be explicitly brought within debates over corporate governance, and within studies of corporate governance.

4. Explaining the doing of corporate governance by analysts: reflections on

theoretical lenses and empirical materials

This thesis has drawn upon a set of interrelated theoretical lenses and concepts from several fields of the social sciences to make sense of the different dimensions of the doing of corporate governance by some analysts in the US and the UK across the past decade. These have included notions of eventalisation, arena, problematisation, translation, programme, technology, inscription, critic, and carrier. The concentration on the corporate governance reports produced by analysts and on the other textual documents as the main empirical materials in this thesis have also been largely informed by these theoretical concepts. This section offers some reflections on the uses of the theoretical concepts in different parts of this thesis, and on the adoption of the various textual documents.

4.1 Reflections on the "arena" analysis

The concept of "arena", which has affinities with the Foucauldian genealogy and with the notion of "eventalisation" (Foucault, 1991b; Smart, 2002), has been formulated, adopted, and revised by scholars in accounting to examine the emergence of new modes of calculation (e.g. Burchell et al., 1985; Mennicken, 2008; Robson, 1991, 1994). As an analytical lens rooted in the discipline of accounting, the concept of "arena" has mostly been utilised to inform studies of the emergence of financial accounting and auditing ideas, techniques, and institutions. This thesis has extended the analysis of "arenas" to investigate the emergence of a new form of economic action and calculation that appeared and developed in financial markets in the US and the UK in the early 21st century, namely, the doing of corporate governance by analysts. This thesis has sought to offer a "history of the present" of the doing of corporate governance by analysts, and of the multiple processes which constituted this phenomenon. In order to locate the phenomenon within a broad social and historical context, this thesis has traced the complex interplay of various ideas, issues, events, agents, and agencies out of which the doing of corporate governance by analysts emerged. The three arenas identified in this thesis, namely, investment research, the regulatory framework for sell-side financial analysts, and corporate governance, constituted the multiple and dispersed conditions

under which the doing of corporate governance by analysts appeared and developed. As informed by previous analyses of arenas, this thesis has suggested that it was not simply the concern about corporate governance, or the technical problem associated with sell-side investment research that had triggered the emergence of the corporate governance work undertaken by analysts. Instead, the current study of this "event" has revealed the emergence of the doing of corporate governance by analysts as "a product of a multiplicity of processes", and located this phenomenon in "a complex field of relations" (cf. Smart, 2002) that extends significantly beyond the immediate issue of corporate governance.

Following Mennicken (2008) and Robson (1991; 1994), this thesis has drawn upon the concepts of "problematisation" and "translation" to further operationalise the analysis of arenas. For the current study, the corporate governance work performed by analysts was perceived as indispensable, and came to be seen as the focus of varied attention in the three arenas identified. In particular, the corporate governance work pursued by analysts was considered as a proposed solution to the various problems widely articulated in different aspects of institutional life. In this regard, the concept of problematisation has helped this thesis to frame the analysis of the process through which a certain issue was constructed as a problem, and through which the corporate governance work undertaken by analysts was proposed and articulated as a potential solution to the problem. As informed by the notion of problematisation, this thesis has also attended to a diverse and heterogeneous group of agents and agencies pronouncing on the deficiencies or failures of certain practices in financial markets, and calling for actions to correct the mistakes or resolve the problems (cf. Miller & O'Leary, 1994). For instance, in the arena of "investment research", corporate leaders, investors, financial intermediaries, governmental bodies, professional associations, and other constituents of the investing public came to view "short-termism" as a problem in the US and the UK financial markets, and called for fundamental reforms to tackle the problem. Some of these agents and agencies, such as the Enhanced Analytics Initiative, the Trades Union Congress in Britain, and the Conference Board, argued that the short term focus of sell-side investment research contributed to the more general problem of "short-termism". They proposed and articulated the view that long term investment research that takes into

account corporate governance and other extra-financial issues can potentially provide a solution to the problem of "short-termism". While these different agents and agencies may originally differ in their interests, concerns, and agendas, they eventually came to share views on particular issues considered to be problems.

The process through which the originally distinct and different concerns and interests of the various agents and agencies were transformed in a way that these agents and agencies defined and interpreted an issue as a common problem has been analysed in this thesis as a process of translation (e.g. Callon, 1980; Callon & Law, 1982; Robson, 1991). The notion of translation has also focused the attention of this thesis on the actions, mostly discursive in nature, taken by some agents and agencies in financial markets to promote and legitimise a proposed solution to a certain problem by changing the interests of others, and by encouraging other organisations and institutions to join their formal or informal networks. Furthermore, in the arenas identified in this thesis, certain issues were problematised in the name of wider concerns and broader aspirations in the economy and society. The notion of translation has again helped the thesis to analyse this as a process through which a *local* problem (e.g. analyst conflicts of interest) was interpreted in a way that it was attached to and made consistent with wider concerns and objectives in financial markets (e.g. the loss of trust and integrity in capital markets and the aspiration of restoring investor confidence) (cf. Mennicken, 2008; Miller, 1991; Robson, 1991).

4.2 Reflections on the concepts of "programme" and "technology"

This thesis has paid particular attention to the mechanisms, tools, and devices deployed by analysts in their evaluations of the corporate governance procedures adopted by companies, and in their integration of governance issues within investment analyses. These mechanisms, tools, and devices have been examined in light of the concept of "technology" (e.g. Miller & Rose, 1990; Miller & Rose, 2008; Rose & Miller, 1992). In particular, most of the technologies created and deployed by analysts for doing corporate governance, such as narratives, lists, tables, graphs, financial and statistical models, have been viewed in this thesis as "inscriptions" (e.g. Latour, 1987; Latour & Woolgar, 1986).

Inscriptions have been regarded as "technologies of government", for it is through inscription that a domain is rendered visible, measurable, comparable, calculable, and amenable to being acted upon (Rose & Miller, 1992). The notion of "inscriptions" has enabled this thesis to conceptualise the mechanisms, tools, and devices deployed by analysts as *transparency making devices*, which created a kind of visibility in financial markets.

Technologies typically go hand-in-hand with "programmes" (e.g. Miller & Rose, 1990; Miller & Rose, 2008; Rose & Miller, 1992). The wider concerns, ideas, broader policy objectives, aspirations, and ideals in financial markets and in the economy and society have been analysed in this thesis in light of the notion of "programme", a concept that has been elaborated in the "governmentality" literature. More specifically, programmes have been considered in the present research as including the objective of restoring investor confidence and integrity in financial markets, the agenda for reforming corporate governance, the perceived ideal of "transparency", the objective of integrating extra-financial issues within the investment decision making process, among others. As informed by the linkages between programmes and technologies conceptualised in prior research (e.g. Mennicken et al., 2008; Miller, 2008a, 2008b; Miller & Rose, 1990; Miller & Rose, 2008; Power, 1997; Rose & Miller, 1992), this thesis has argued that the ideals, aspirations, and objectives articulated in financial markets shaped, animated, and gave significance to the mechanisms, tools, and devices deployed by analysts when doing corporate governance. In return, the mechanisms, tools, and devices deployed by analysts have been viewed as helping to make the various programmes operable.

In light of the posited interrelationships between programmes and technologies, this research has viewed the corporate governance work performed by analysts as not neutral or purely technical. Instead, this work was, to varying degrees, attached to and linked with certain programmatic ideals that it was potentially able to help realise and achieve. Even though the mechanisms, tools, and devices deployed by analysts have been thought of as "technologies", both technological and programmatic dimensions of the corporate governance work undertaken by analysts have been seriously considered and attended to in this research (cf. Mennicken et al., 2008; Miller, 2008a, 2008b; Power,

1997). It has been argued elsewhere that the work performed by analysts "cannot be understood except as part of the social arrangements that embed [this] work"[128] (Fogarty & Rogers, 2005: 349). The notions of the "programmatic" and "technological" have been utilised here as a way of conceptualising the embedded and socially contingent nature of the corporate governance work performed by analysts, while also highlighting the ways in which this work can in turn potentially impact upon those social arrangements.

The attention paid in this thesis to the mechanisms, tools, and devices deployed by analysts when doing corporate governance is consistent with the "technological turn" in economic sociology (e.g. Beunza et al., 2006; Callon, 2005; Callon & Muniesa, 2005; Hardie & MacKenzie, 2007; Muniesa et al., 2007). This "technological turn" in economic sociology has emphasised the material and technical nature of economic action and calculation. It has regarded equipment, texts, instruments, models, and tools as important elements that constitute various forms of economic action and calculation. The current study, however, has sought to go beyond the "technological turn" in economic sociology, in the sense that both technologies and programmes, or ideas and instruments, have been viewed as constituting the corporate governance work performed by analysts. In particular, for the integration of corporate governance within the investment analyses that analysts performed, this thesis has not only considered the tools and devices deployed by analysts, such as quantification of corporate governance, portfolio analyses, event analyses, regression analyses, "governance-to-profitability" analyses, "governance-to-valuation" analyses, as well as the various graphs, as elements of the integration. The thesis has also emphasised that this particular form of economic calculation was also constituted by the ideas and discourses related to the potential link between corporate governance and the financials, the ideal and objective of incorporating governance issues in the investment decision making process, and the perception that analysts have a "leading" role to play in this field. In short, the notions of "programmatic" and "technological" have allowed the current study to understand more

[128] Fogarty & Roger (2005) draw upon neo-institutional theory (e.g. DiMaggio & Powell, 1983; Meyer & Rowan, 1977) and sociology of professional groups (e.g. Abbott, 1988) to examine the institutional and social context that shapes the work performed by sell-side financial analysts. They claim that the "institutions that surround the delivery of opinions regarding the merits of equity investments are powerful influences on the work product of analysts" (Fogarty & Rogers, 2005: 331).

fully the pre-conditions and implications of a particular form of economic calculation and action. It is suggested that this sheds new light on economic sociology, by supplementing the "technological turn" with consideration of programmes, ideas, and discourses, and the ensembles formed between the programmatic and the technological (cf. Mennicken et al., 2008; Miller, 2008a, 2008b).

4.3 Reflections on the concepts of "critic" and "carrier"

The notion of "critic" was initially formulated by some economic sociologists to explain and conceptualise the evaluative nature of critical reviews on cultural products performed by cultural commentators (e.g. Becker, 1982; Hirsch, 1972; Shrum, 1991). It has subsequently informed studies of other forms of evaluation undertaken by other assessment bodies, for instance, equity research performed by sell-side financial analysts (e.g. Beunza & Garud, 2007; Zuckerman, 1999). This thesis has added to these studies through investigating the evaluations of the corporate governance procedures adopted by companies performed by analysts, and by viewing analysts as critics of corporate governance. The "critic" lens has served as a reminder regarding the governing effects that can potentially be generated from the critical review process, and the possible normative pressure that may impose on objects being reviewed, given that critics have been considered in economic sociology as "institutional regulators" (Boskoff, 1964; Hirsch, 1972; Shrum, 1991). However, this thesis has sought to refine and extend the notion of "critic" in two respects.

First, while most existing research on critics has tended to consider the institutional environment that shapes the critical review process or the impact of critical reviews on the objects being evaluated, this thesis has concentrated on the ways in which a specific form of critical review, namely, the corporate governance evaluation undertaken by analysts, was performed. In particular, by making reference to the notion of "inscription" (e.g. Latour, 1987; Latour & Woolgar, 1986), this thesis has specifically examined the *technologies*, namely, the mechanisms and devices deployed by analysts in their corporate governance evaluations. As documented in chapter 3, inscriptions such as narratives, lists, and ranking tables, were created and deployed by analysts to represent

and make possible comparisons of the corporate governance procedures adopted by different companies. This thesis, therefore, has shed new light on the "critic" lens by explicitly investigating the mechanisms and devices deployed by a particular set of critics in the critical review process. Critical review, it is suggested, is a material activity, and the technologies deployed by critics can be viewed as constituting the material infrastructures for the critical review process (cf. Beunza & Garud, 2007)[129].

According to the notion of "critic", critics evaluate the quality of a product based on the aesthetic systems in a particular cultural field. Aesthetics, defined as the philosophy of arts, can be seen as the guiding principle informing the critical review performed by cultural critics. Similarly, in this study, the regulatory requirements of "best practices" inscribed in formal regulations of corporate governance have been viewed as the guiding principles for analysts assessing the quality of the corporate governance procedures adopted companies. Nevertheless, the "critic" lens on its own has failed to systematically address how the guiding principles or the evaluative schemata are operationalised by critics. To address this aspect of the critical review process, the concept of "carrier" (e.g. Sahlin-Andersson, 1996; Sahlin-Andersson & Engwall, 2002; Scott, 2001, 2003) has been drawn upon to supplement the notion of "critic". The concept of "carrier" has allowed this thesis to argue that formal regulations of corporate governance were not used by analysts in a neutral manner. Instead, "best practices" of corporate governance contained in formal regulations were constantly unpacked, elaborated upon, edited, and re-interpreted by analysts in their corporate governance evaluations. This thesis has also found that analysts even proposed alternative or additional "best practices", and employed the revised "best practices" to evaluate the relative merits of the corporate governance procedures adopted by different companies. In short, as informed by the notion of "carrier", this thesis has sought to provide new insights into the manner in which a particular set of critics operationalised the guiding principles that were supposed to inform the critical review process, in the process transforming them, even if only to a modest extent. Further, the thesis has also aimed to

[129] The corporate governance evaluations performed by analysts, as a form of critical review, can be material in nature. However, it is not suggested here that they are purely material. These evaluations, as this thesis has argued, have made a particular programme of corporate governance reforms, one that places "transparency" in a central position, operable. The corporate governance evaluations performed by analysts also have a programmatic dimension.

shed light on how analysts with relatively little experience in dealing with regulatory issues related to corporate governance have unpacked and sought to make sense of new regulations and new regulatory arguments.

4.4 Reflections on the use of textual documents

This thesis has made use of various types of textual documents to examine the different dimensions of the doing of corporate governance by analysts. These have included the corporate governance reports written by analysts, the official documents issued by various organisations and institutions, selected financial and business newspapers and magazines, textbooks of corporate governance, and academic and practioner publications on corporate governance.

The corporate governance reports produced by analysts have been intensively referred to and utilised in this thesis. In particular, the mechanisms, tools, and devices deployed by analysts in their corporate governance evaluations, and in their integration of corporate governance issues within investment analyses, were identified largely on the basis of the corporate governance reports that analysts produced. The concentration on the corporate governance reports produced by analysts in this research is in line with recent studies of analysts that have recognised and emphasised the importance of the work product generated by analysts, namely, the written reports (e.g. Beunza & Garud, 2007; Fogarty & Rogers, 2005). Nevertheless, in addition to focusing on the arguments made and presented by analysts in the narratives of their reports, in line with prior studies, the present study has also paid special attention to the other elements that made up these reports. These comprised lists, tables, charts, figures, graphs, and financial and statistical models which have been viewed in this thesis as "inscriptions" that constituted the technologies deployed by analysts when doing corporate governance. The concentration on the corporate governance reports produced by analysts has also allowed this thesis to investigate the way in which formal regulations of corporate governance and information about the governance procedures of companies were elaborated upon, edited, and re-interpreted by analysts. It was largely through these written reports that the elaboration, editing, and re-interpretation of various ideas and information of

corporate governance by analysts were presented and documented (cf. Sahlin-Andersson & Engwall, 2002).

To track and trace the programmatic, ideological, or normative aspect of the doing of corporate governance by analysts, this thesis has focused on official documents issued by national and international governmental and non-governmental organisations, professional associations, and informal networks formed between institutional investors and asset management firms, selected financial and business newspapers and magazines, textbooks of corporate governance, and academic and practioner publications on corporate governance. Ideas, ideals, aspirations, and objectives that were discursively articulated in financial markets and in the wider economy and society were largely inscribed and represented in these textual documents. It was based on these documents that this thesis has identified and examined the various ideas, idealised schemata, and aspirations which shaped, animated, and gave significance to the concrete tasks and routines performed by analysts when doing corporate governance.

For instance, to trace the ideas and discourses related to the perceived importance of integrating corporate governance in the investment decision making process and the role of analysts in this field, this thesis has focused on the reports issued by the United Nations Global Compact and the United Nations Environment Programme Finance Initiative. Based on these reports, the thesis has argued that these ideas and discourses that had emerged and that were promulgated in financial markets not only gave significance to, but were also operationalised by the concrete work of linking governance issues to the financials in the investment analyses performed by analysts. Furthermore, in order to trace the dispersed conditions of possibility for the appearance and development of the doing of corporate governance by analysts, various textual documents have been drawn upon and analysed. These included reports issued by the CFA, the Business Roundtable, the Trade Union Congress, the EAI, the FSA, the SEC, and other organisations and institutions, selected financial newspapers and magazines, textbooks of corporate governance, among others. Based on these documents, an ensemble of ideas, events, processes, activities, and actors that made possible the emergence of the corporate governance work of analysts was identified. Beyond

searching for the origin of the doing of corporate governance by some analysts in the US and the UK, the utilisation of a variety of textual documents has allowed this thesis to trace and investigate the multiple and dispersed historically-specific factors that facilitated and gave rise to the phenomenon.

5. Implications for future research

The doing of corporate governance by analysts that this thesis has investigated represents a case in which some sell-side financial analysts in the US and the UK have brought corporate governance within the boundaries of their work territory since the early 21st century. This thesis has examined the mechanisms, tools, and devices deployed by analysts in their corporate governance evaluations and in their integration of governance issues within investment analyses. Nevertheless, the extent to which and the ways in which analysts have developed a system of knowledge and expertise in these fields may deserve further systematic enquiry in the future. The extent to which the doing of corporate governance by analysts represents an expansion of their expertise and knowledge claims from financial analysis to the area of corporate governance may also be conceptualised in future studies. As a quasi-professional group (cf. Fogarty & Rogers, 2005), analysts may engage in "jurisdictional contests" (Abbott, 1988) in which analysts may compete against other professions over a given jurisdiction of work in order to secure networks of support for their claims to expertise. Over the jurisdictions of corporate governance evaluation and corporate governance integration, sell-side financial analysts may seek to compete against auditors, credit rating analysts, corporate governance rating analysts, and buy-side analysts. However, instead of only competing against other professional groups, sell-side analysts may cooperate, collaborate, and coordinate with other professions to develop shared expertise and common abstract knowledge within a specific work jurisdiction (cf. Gendron et al., 2007). Future research could, for instance, examine the relations between analysts and other professional groups in the development of expertise and knowledge claims in the area of corporate governance. Also, Kurunmäki (2004) has pointed out that encounters within the system of professions can take the form of "hybridisation", and that a profession can be

hybridised. This means, a profession can acquire and adopt tools which were originally developed in a different work jurisdiction and become a so-called "hybrid profession"[130]. Future research could possibly explore the extent to which the sell-side financial analyst profession has become a hybrid profession, and the process through which tools for evaluating and integrating corporate governance initially developed by other professional groups are acquired and adopted by analysts. In addition, Gendron, Cooper, & Townley (2007: 103) have suggested that in order to understand the production and construction of expertise, the ways in which proponents promote their claims to expertise, and how target audiences react, should both be looked at. Future research may possibly consider not only the ways in which analysts seek to promote and legitimise their claims to expertise in the area of corporate governance, but also how corporations, institutional investors, and fund managers perceive and react to the actions taken by analysts.

This thesis has emphasised that the corporate governance work undertaken by analysts was, to varying degrees, attached to and linked with certain programmes in financial markets that articulated, animated, and gave significance to the technologies deployed by analysts. For instance, the integration of corporate governance within the investment analyses performed by analysts, it has been argued, was shaped by ideas and discourses related to the potential link between corporate governance and the financials that were widely promulgated in financial markets from the 1980s onward. Future research may be conducted to investigate the dynamics evolving between programmes and technologies for the corporate governance work pursued by analysts. More specifically, in what ways do the technologies deployed by analysts to work towards corporate governance issues change the contents of the programmes that these technologies have come to attach to? How do specific mechanisms, tools, and devices deployed by analysts in their corporate governance work potentially impact upon those ideas, ideals, aspirations, and objectives in financial markets that articulated and gave significance to the doing of corporate governance by analysts in the first place? Do analysts develop new tools and devices, to what extent are these new technologies shaped by new programmes articulated in financial markets and in the wider economy and society, and

[130] In her study, Kurunmäki (2004) suggests that the Finnish medical profession acquired and adopted tools of budgeting, costing, and pricing that were initially deployed by management accountants.

how do new technologies and new programmes co-emerge? In short, in addition to studying the pre-conditions that gave rise to the doing of corporate governance by analysts, the possible "consequences, paradoxes and dilemmas" triggered by the corporate governance work of analysts for the financial markets and the wider economy and society may also be subject to systematic enquiry in the future (cf. Mennicken, 2005: 193)[131].

While the doing of corporate governance by analysts started to surface from the early 21st century, it has begun to *decline* since the end of 2008. One indication of this seeming decline is that the ESG or SRI teams which provided corporate governance and extra-financial research were dis-continued in a few brokerage firms, such as Citigroup, JP Morgan, Deutsche Bank, and Merrill Lynch, from the end of 2008[132]. Commentators have somehow attributed these incidents to the credit crisis that was sparked in 2007[133] (e.g. Brooksbank, 2010; Wheelan, 2008, 2010b). This credit crisis has been considered as forcing brokerage firms to save resources and reduce cost by cutting headcounts, including cutting staff initially employed in the specialised ESG or SRI teams (e.g. Wheelan, 2008)[134]. The emergence of the doing of corporate governance by analysts, as this research has documented, was conditioned by a complex interplay of rationales, discourses, institutions, practices, and events in financial markets. Similarly, it would be interesting to locate the seeming decline of the corporate governance work pursued by analysts within a broad institutional and social context. In particular, future studies could examine the extent to which and the ways in which the arenas that conditioned the initial

[131] Mennicken (2005) proposes that in order to thoroughly understand how international auditing standards work and travel, not only the conditions that gave rise to their spread, but also "the unforeseen consequences, paradoxes and organisational dilemmas" that international auditing standards trigger are also needed to be attended to.

[132] Some of these brokerage firms, however, decided to integrate ESG research into their mainstream equity research departments. In other words, there are analysts at these brokerage firms who may still work on ESG issues on an individual basis.

[133] In brief, this credit crisis was initially triggered by problems with the repayment of subprime mortgage in the US. These problems further caused concerns about lending around the world from August 2007. Some notable outcomes of this credit crisis included the nationalisation of Northern Rock, the bankruptcies of Bear Stearns and Lehman Brothers, the merger of Lloyds and HBOS, the acquisition of Merrill Lynch by Bank of America, collapses of banking systems and recessions in countries across the globe, among others.

[134] As Wheelan (2008) has described, "[f]ears that dedicated SRI research could become a victim of the credit crisis are proving prescient as banks look to tighten belts. News [...] that Deutsche Bank had discontinued its corporate governance research service for clients added to the ending of dedicated ESG research coverage at JP Morgan and Citigroup's decision to cut back staff at its in-house SRI research team".

emergence of the doing of corporate governance by analysts are ruptured and transformed (cf. Burchell et al., 1985). In other words, future research might focus on how the rationales, discourses, institutions, practices, and events in each arena are transformed in such a way that the attention paid to the corporate governance work performed by analysts wanes, or that this work is no longer perceived as constituting a potential solution to the existing perceived problems. Also, while it appears that the corporate governance work undertaken by analysts has declined somewhat, relative to its profile in the early years of the 21st century, this does not necessarily mean it is in the process of disappearing. The doing of corporate governance by analysts may be temporary and fragile in nature. The corporate governance work pursued by analysts may possibly *rise* in prominence in the future, as and when emerging factors that endow this work with a wider significance appear[135]. *Agents of transparency*, the title of this thesis, has suggested a role for analysts in the field of corporate governance based on the current development of the doing of corporate governance by analysts. This role may be subject to further transformation when the corporate governance work undertaken by analysts reaches a new stage. Nevertheless, this thesis has, it is hoped, contributed to the opening up for investigation of the corporate governance work performed by sell-side financial analysts.

[135] Citigroup has announced in May 2010 that it is reforming its specialist SRI research by hiring a new SRI analyst. Wheelan (2010a) suggests that this announcement by Citigroup indicates that there is new demand for ESG research from brokerage firms.

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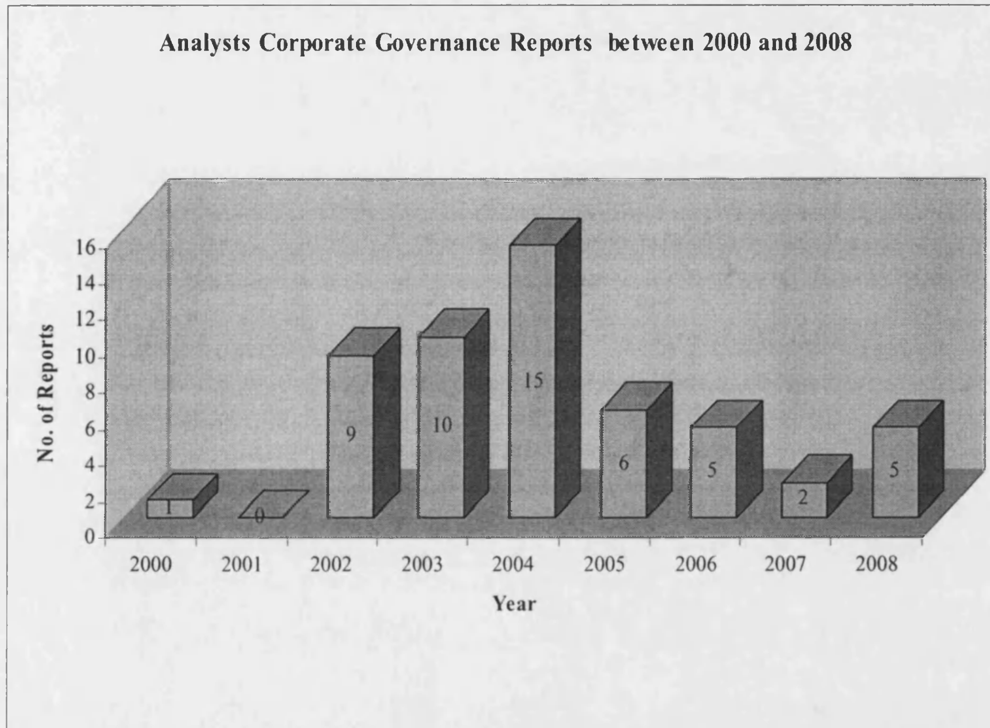
Appendices

1. Information on the Corporate Governance Reports Produced by Analysts



2. Information on Interviews

Interviewee	Position	Organisations	Form of Interview	Date of Interview
Interviewee 1	Managing Director	Financial Services Company	Face to Face	13/08/2007
Interviewee 2	Co-Head of Socially Responsible Investment Research	Financial Services Company	Telephone	01/10/2007
Interviewee 3	Managing Director	Corporate Governance Consultancy Firm	Face to Face	21/11/2007
Interviewee 4	Manager - Corporate Governance	Asset Management Firm	Face to Face	22/11/2007
Interviewee 5	Director of Responsible Investment	Investment and Fund Management Firm	Face to Face	31/10/2008
Interviewee 6	Socially Responsible Investment Analyst	Brokerage Firm	Face to Face	18/11/2008
Interviewee 7	Managing Director - Stewardship Services	Investment Management and Corporate Governance Advisory Firm	Face to Face	06/08/2009