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Disruption in the Market for Information: MiFID II and Investor Relations

SUBHASH ABHAYAWANSA ^{*}, MARK ALEKSANYAN ^{**} and KENNETH LEE [†]

**Swinburne Business School, Swinburne University of Technology, Hawthorn, Australia; **Adam Smith Business School, University of Glasgow, Glasgow, UK; †Loughborough Business School, Loughborough University, Loughborough, UK*

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ABSTRACT Our study addresses the complex processes by which actors in the market for information reposition themselves and recalibrate their work in response to the introduction of the Markets in Financial Instruments Directive (MiFID) II, which regulated a wide range of issues on information flows and payments for research in capital markets. Using interviews and surveys of UK investor relations (IR) professionals we explore how the activities and practices of IR professionals, and their relations with sell-side analysts and investors, have changed. We find that the operational processes within the market for information have been materially disrupted and observe an increase in the importance and relevance of the IR function both internally (within their organizations) and externally (in the field of investment advice). We provide evidence of extensive ‘jostling for position’ in the field which is perceived to have resulted in the (at least partial) disintermediation of the sell-side and increased direct ‘interlocking’ of investors and IR professionals in their engagement and information communication practices. We report on a changing information market paradigm (sequencing of communication) - where the traditional information and relational intermediation roles of sell-side analysts are now increasingly contested and assumed by IR professionals.

Keywords: MiFID II; investor relations; IROs; sell-side analysts; investors; practice

1. Introduction

I’m quite happy with MiFID II carrying on... I stood up the last couple of years and said, ‘It’s our moment in the sun’, so for the investor relations industry I think it’s fabulous because it’s our moment to shine and it’s our moment to get some investment into our business... (IR9)

In Europe, the Markets in Financial Instruments Directive (MiFID) II regulation was implemented in January 2018 with the aim of enhancing transparency, investor protection, and integrity in capital markets. Although lauded as one of the most expansive financial market regulations in recent history (Lourie et al., 2023), some market participants expressed concerns about unintended consequences of such a wide-ranging piece of legislation. One rule within MiFID II, that

Correspondence Address: Mark Aleksanyan, Adam Smith Business School, University of Glasgow, GlasgowG11 6EY, UK. Email: mark.aleksanyan@glasgow.ac.uk

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has garnered significant research focus from scholars and practitioners, is the requirement for sell-side firms that provide a mix of research, trading and other investment-related services to separately identify and charge for the cost of the research they provide. Under the rules, asset managers are required to either bear the research costs directly from their own resources or transfer the charge to their clients if a direct benefit to them can be established.

This requirement to ‘unbundle’ costs possesses the potential to fundamentally alter the equilibrium of incentives and distribution of resources among various actors within the field of investment advice and to distort long-established economic, social and technical expertise-related dependencies between them. The unbundling also has the potential to re-shape channels and dynamics of corporate reporting and disclosure practices, and engagement between actors within the field. The actors likely to be specifically affected are the Investor Relations Officers (IROs) within researched companies, sell-side analysts and institutional investors. We have already seen a number of research studies triggered by MiFID II, but they almost exclusively focus on the impacts associated with sell-side analysts’ behavior and outputs, such as changes in sell-side analyst coverage, forecasting accuracy, and market effects of analyst forecasts (Lang et al., 2024; Fang et al., 2020; Guo & Mota, 2021; Anselmi & Petrella, 2021; Amzallag et al., 2021; Lourie et al., 2023).

Our study takes the specific empirical setting of MiFID II as an opportunity to further our understanding of the field of investment advice. Our study is novel in that we examine the regulatory impact through the experiences of IROs and position it to contribute to the growing literature on actors within the market for information (see for example Millo et al., 2023; Lee & Manochin, 2021; Graaf, 2018; Imam & Spence, 2016). Investor relations (IR) is a critical nexus between corporate reporting entities and the investment community, and little is known about how MiFID II affects IROs despite their activities being at the center of the web of interactions impacted by it (Lang et al., 2024). Also, there has been considerable speculation in both the business press and practitioner publications regarding the potential challenges and opportunities that MiFID II could present for the practice of IROs (e.g., Human, 2019). Understanding the impacts on IROs’ practice within the field of investment advice is crucial to unlock the intricate interplay between the MiFID II regulations and its ramifications on capital markets.

Nascent research has examined various facets of IROs’ practice and their interactions with other actors in the field of investment advice (Karolyi et al., 2020; Kim et al., 2021; Chapman et al., 2022; Godsell et al., 2023; Bazhutov et al., 2023). However, this research largely assumes that IROs’ practices are contextually invariant¹ and atemporal. This assumption is problematic because it ignores the fact that practices transpire and are transformed within communities of practice (Hargreaves, 2011). Practices are not simply the sum of individual actions but are instead the product of social interactions and negotiations. As such, they are contextually specific and subject to change over time. MiFID II offers a quasi-experimental setting to understand the practices of IROs as it has been shown to have disrupted the practices of actors, such as sell-side analysts and asset managers (investors), on whose activities IROs’ practice is predicated.

Building upon social practice theory (Bourdieu, 1986, 2005; Schatzki, 2002, 2005) and Bourdieusian theorization of field this paper seeks to explore the alterations within the field of investment advice when it faces a disturbance such as the enactment of MiFID II. The objective is twofold: first, to discern the transformative dynamics within the investment advice field, and second, to understand the consequent evolution in IROs’ practice within this recalibrated landscape. This paper responds to Hargreaves’ (2011) call for research on connections, alliances and conflicts between practices of professionals and it does so by evoking a disruptive context.

¹One exception is Bazhutov et al. (2023) study, which documents evidence that the supply and effectiveness of IR varies between insider-oriented and outsider-oriented countries.

Conceptualizing regulation as an intervention in the organization of the social structure of a field this study analyses the interdependencies between practices of actors and how regulation alters the social dynamics in a field where multiple actors operate. This avoids a siloed approach which can lead to a partial understanding of unintended consequences and indirect impacts of regulation on a given professional group (Kitching et al., 2015).

Our analysis focuses on how changes occurring in different spheres of interaction, such as those of sell-side analysts and asset managers, affect another sphere, the investor relations (IR) practice. This analytical focus helps us comprehend field-level changes and attributes therein and implications on IROs' practice by elucidating performances and negotiations of whole bundles of practices in the field. Changes in spheres of interaction result from changes in 'rules of the game' and, as a consequence, alter roles, responsibilities, activities, task environment and objectives of the actor and the social, technical and symbolic capitals they wield (Bourdieu, 1986, 2005). Thus, our analysis places a particular focus on economic, social and technical expertise and reputational dependencies between actors in the field of investment advice that shape and determine IROs' practice. In our analysis, we primarily draw upon rich qualitative data collected from in-depth semi-structured interviews of UK IROs, corroborated by findings from a survey of IROs of large – and mid-cap UK companies.

Our findings suggest that MiFID II resulted in the intensification of IROs' interactions with investors. This is manifested both in the increased volume and frequency of two-way information exchange with investors, and in the perceived importance of IRO-investor direct engagement. Secondly, this study unpicks factors that drive the increase in the two-way direct engagement with investors. We show that the increase is driven by MiFID-induced disintermediation of sell-side analysts which, in turn, is driven by perceived 'juniorisation' of analysts and a deterioration in the 'value-for-money' of analyst research. These changes have induced IROs to take up additional (technical and social) functions that were traditionally performed by the sell-side, which has increased the perceived importance of IROs for investors and managers.

This study is the first to provide evidence from the perspective of IROs on the impact of MiFID II on the practice of IR, that can validate, contest, or extend conclusions drawn from prior empirical studies concerning the effects of MiFID II on analysts and investors. Moreover, it can offer valuable input for future studies in corporate reporting. If we aim to advance our comprehension of corporate reporting, it is imperative to consider not only its content but also how it is communicated and intermediated in the market for information and investment advice. Consequently, the alterations in the dynamics of interaction among these key users and intermediaries, which is the primary empirical focus of our study, become relevant and central to the exploration of corporate reporting and communication itself.

Our study also has important policy implications. Although the focus of this research is on the UK, MiFID II is a pan-European legislation with the potential to change practices throughout the rest of the world (Fang et al., 2020). In February 2021, the EU issued Directive 2021/338 announcing further changes (anecdotally referred to as 'quick fixes') to MiFID II to address perceived unintended outcomes from the legislation (EU, 2021). Consequently, in November 2021, the UK's FCA issued a Policy Statement (PS21/20) which introduced several changes to the regulation, *inter alia*, to improve the availability of research on SME firms.² Our study provides relevant evidential material for these deliberations and future policy initiatives related to MiFID II. Moreover, our revelations of the nature of MiFID II-induced changes in IROs' practice and *modus operandi* can help inform future IR professional development programs and

²From 1 March 2022, research on firms below the threshold of £200m could be provided by brokers to asset managers on a bundled basis (where asset managers make a single commission payment to brokers covering execution and research) or for free and would not constitute an inducement under our rules (FCA, 2021, Policy Statement PS21/20).

professional qualification curricula of IR professional bodies, e.g., those of the UK Investor Relations Society³, or similar bodies in other European and international jurisdictions.

The paper proceeds as follows. The next section provides a brief discussion of the position and role of IROs in the field of investment advice. Section 3 reviews related research on the impact of MiFID II on relevant market actors, while the practice of IROs is theorized in section 4. Section 5 explains the research design. Our main findings are presented and discussed in section 6, while section 7 concludes the study.

2. Position and the Roles of IROs in the Field of Investment Advice

There are three critical clusters of economic actors central to the circulation of information in equity capital markets: sell-side analysts, institutional investors⁴, and IROs. Historically, there has been a clear sequencing of communication among this ‘information tripartite’. The sell-side had the primary responsibility to gather information from a variety of sources, with IROs being central to this process. They would then analyse this information, interpret and communicate it in the form of equity research reports. These reports typically contain analysts’ assessment of a company’s performance and prospects, together with various summary metrics such as earnings forecasts, price targets, and investment recommendations. The buy-side institutional investors who receive these reports, in turn, would raise queries from the sell-side, initiating a continuous cycle of information collection, analysis, and distribution by the sell-side. In addition, the sell-side would often act as ‘relational’ intermediaries by performing relationship broking and facilitating engagement between investors and company management. In these information transmission and relationship-building cycles with external actors, IROs act as the management’s ‘front-line’ engagement officers.

The role of IROs is diverse. It includes ‘the communication of information and insight between a company and the investment community’ to enable ‘a full appreciation of the company’s business activities, strategy, and prospects’ and to ‘allow the market to make an informed judgement about the fair value’ (IR Society, *n.d.*). The role also includes coordinating communications to the market, engaging with investors and analysts, and targeting potential investors (Karolyi et al., 2020; Brown et al., 2019), and building trust with the investing community (Brown et al., 2019; Chapman et al., 2022).⁵ IROs are also argued to fulfill a two-way information intermediary role that augments managers’ investment information set. This is done by collecting and remitting investor feedback (Godsell et al., 2023), advising the CEOs/CFOs on a frequent basis (Karolyi et al., 2020), and directing the efforts of the C-level executives by developing and coordinating managers’ views into a consistent narrative for the market (Chapman et al., 2022). IROs can be aptly described as the trusted ‘adviser’ to the top management of companies.

Brown et al. (2019) delve into the nature of IROs interactions. They affirm that the primary interactions occur with top management, the buy-side and sell-side analysts. Notably, earnings conference calls emerge as the most important channel for informing institutional investors. Private phone calls are found to be more important than published corporate reports, management forecasts of future earnings, and even sell-side analysts (Brown et al., 2019) when communicating with investors. IROs view the success of earnings conference calls, which hinge upon the

³In January 2022, the UK Investor Relations Society conducted a webinar with UK’s IROs, representatives of the Financial Conduct Authority, analysts and institutional investors, where some of the initial findings of this study were used to illustrate the challenges and opportunities facing IR practice and debate future actions.

⁴The term ‘investors’ should be taken to mean both ‘buy-side analysts’ and ‘fund-managers’.

⁵A comprehensive list of IRO activities and roles is provided in the UK Investor Relations Society ‘Best Practice Guidelines’ for members (see Online Appendix III).

thoroughness of the script they prepared and their ability to anticipate potential questions, as one of their most important key performance indicators (Brown et al., 2019). The overarching yardstick for measuring the success of the IR function is nonetheless the availability and quality of information circulating in the market (Laskin & Laskin, 2018).

Laskin and Laskin (2018), in tracing the origin of contemporary IR practice, highlights that the technical capital (i.e., technical knowledge and expertise) of present-day IROs encompasses essential components such as financial expertise, business acumen, and proficient communication skills. Moreover, proficiency in public relations, relationship building and market dynamics, and comprehensive understanding of information's influence on diverse stakeholders are indispensable competencies of IROs and form part of their social capital (Favoro, 2001).

3. Relevant Literature

3.1. Impact of Investor Relations Work

Several studies have examined the impact and 'value' of the IR function. Chapman et al. (2019) document that firms with in-house IROs have lower stock price volatility, lower analyst forecast dispersion, higher analyst forecast accuracy, and quicker price discovery. Kirk and Vincent (2014) find that introducing an IR function within a firm is associated with increased corporate disclosures, analyst coverage, institutional holdings, and liquidity. Also, the quality of the IR function, as measured by IR rankings⁶, is linked to higher analyst coverage and institutional ownership, higher analyst forecast accuracy and lower forecast dispersion (Brochet et al., 2020). These findings collectively elucidate that IROs aid in reducing information asymmetry by fostering transparency of firm performance and prospects and assist market participants more effectively assimilate firm information.

Chapman et al. (2019) shows that most of these effects are more pronounced for firms with lengthier or more frequent corporate reports, indicating that IROs are particularly valuable when information volume is high. It is longer-tenured IROs that yield the stronger effects, while replacing a long-tenured IRO with a new one leads to increased stock price volatility, decreased forecast accuracy, and slower price discovery (Chapman et al., 2019). Hope et al. (2021) find that companies that used ex-analysts as IROs have better quality (or more readable) corporate reports. They attribute this finding to analysts' experience in reading corporate disclosures and their ability to distinguish between good-versus-bad disclosure practices from the investors' perspective. Hope et al. (2021) also find that firms with ex-analyst working as IROs are associated with greater analyst coverage, more institutional investors, and improved stock liquidity. These findings highlight the importance of IROs' technical capital (i.e., technical knowledge and expertise) and social capital (i.e., long-term relationships with other actors in the field) to their success.

IR activity has been found to enhance investment efficiency and firm value. One way in which this occurs is through IROs engaging with institutional investors and relaying feedback to board directors. Godsell et al. (2023) show that the more effective IROs are at this task the better their companies are in making efficient investments. IROs also contribute to safeguarding of firm value by effectively managing or preventing adverse effects stemming from costly escalation of activist campaigns (e.g., takeover bids, proxy fights, vote no campaigns), even in cases of modest firm performance (Chapman et al., 2022). Further evidence of the association between the IR function and firm value is provided by Karolyi et al. (2020) who document a positive relationship between IR activity and firms' Tobin's Q.

⁶IR rankings are generated by the Extel survey of buy-side and sell-side firms.

3.2. *Impact of MiFID II on the Capital Market*

MiFID II, formally introduced as Directive 2014/65/EU of the European Parliament, became effective on January 3, 2018. It represents a substantial, wide-ranging piece of legislation providing ‘new rules for the structure of markets and the trading of financial instruments and prescribes conduct of business standards for the provision of investment products and services’ (CFA Institute, 2017, p. 5). The main objective of MiFID II was to update and develop the existing MiFID framework across a number of areas including transaction reporting, best execution, market infrastructure and, of particular interest to this study, rules governing inducements and the unbundling of research payments, which were not part of the original MiFID. The objective of these changes was to bring greater transparency and competition to the operations of markets in Europe.

The provisions of MiFID II, which introduce increased formality regarding the payment for investment research services (such as research reports, calls, attendances at conferences, and access to valuation models) represent some of the highest-profile changes to emerge from the regulation (Deloitte, 2015). These provisions hold significant relevance to this study. Prior to the introduction of MiFID II, research services were provided without explicit charges at the point of access. Instead, asset managers paid for these services subsequently through higher trading commission rates. This practice, known as ‘soft commissions’, often created and perpetuated economic ties between asset managers and specific brokers who are owed compensation for research services. However, these economic affiliations between asset managers and sell-side entities could potentially conflict with the goal of achieving optimal trade executions on behalf of asset managers’ clients. To address this concern, MiFID II mandates that research services be paid either directly by asset managers, resulting in reduced profits for them, or through a client-funded research payment account. An assessment of the impact of MiFID II by the FCA (2019) shows that most asset managers are now paying for research services from their own revenues, instead of using clients’ funds. This has incentivized asset managers to reduce their research budgets by as much as 30-40% (FCA, 2019).

3.2.1. *Impact of MiFID II on analyst research*

In the period leading up to the implementation of MiFID II, business commentators and market participants voiced concerns about likely adverse impacts, including a reduction in overall research coverage, particularly for small-to-mid sized firms (Giordano, 2019). However, recent research findings on the impact of MiFID II on analyst coverage paint a less conclusive picture. For example, Fang et al. (2020) documented a post-MiFID II reduction in analyst coverage of European firms and a larger increase in companies having no coverage at all compared to the corresponding period in North America. They also find that the loss of coverage is more significant for smaller firms. A fall in analyst coverage of small and medium listed firms has also been witnessed by 53% of sell-side analysts and 44% of buy-side analysts in a survey conducted by the CFA Institute (2019). One explanation for this phenomenon is analysts trying to be more frugal in the way they spend their increasingly dwindling resources and, as a result, terminating the coverage of strategically less important firms.

In contrast, Lang et al. (2024), Guo and Mota (2021), Anselmi and Petrella (2021) and Amzallag et al. (2021) show that the loss of coverage is concentrated in larger firms. They report either no or negligible coverage reduction for small firms. FCA (2019) also failed to find a reduction in analyst coverage for small – and mid-size listed firms. The decrease in analyst coverage for larger and more stable firms has been attributed to reduced demand for sell-side research on large firms, as they are already covered extensively by analysts (Lang et al., 2024; Anselmi & Petrella, 2021). Interestingly, Anselmi and Petrella (2021) and Amzallag et al. (2021) observe that the

reduction in coverage is part of a long-term downward trend, which began before MiFID II, and has been exacerbated by the impacts of MiFID II.

The impact of MiFID II on analyst research quality, akin to its influence on analyst coverage, is also unclear. Fang et al. (2020) and Guo and Mota (2021) document an increase in analysts' forecast accuracy after MiFID II. However, the survey conducted by the CFA Institute (2019) contradicts these findings by showing that 48% (27%) of buy-side professionals believe that research quality is unchanged (decreased) since MiFID II.⁷

Moreover, research evidence is mixed on whether the capital markets find analysts' outputs have become more informative in the post-MiFID II period. While Liu and Yezege (2020) and Guo and Mota (2021) reveal no change in the informativeness of analyst recommendation revisions and analyst earnings forecasts, respectively, Fang et al. (2020) show an increase in the informativeness of analyst investment recommendations.

These inconclusive findings raise the question whether the impact of MiFID II on analysts' research quality is dependent on other factors such as characteristics of the firms covered. The reduction in resources could reasonably be expected to lower the quality of analyst research while the increased competitive landscape arguably makes higher quality research even more important for the survival of brokers. Therefore, the quality of research on some firms might have reduced as sell-side analysts producing higher quality research would have narrowed their coverage. This concentration could have led to an enhancement in the quality of research on firms they continue to focus on. Consistent with this argument Fang et al. (2020) and Guo and Mota (2021) show that analysts who produce less accurate forecasts are more likely to drop out of the research market, with remaining analysts producing better research.

3.2.2. Other information market effects of MiFID II

Lang et al. (2024) provide early evidence of a post-MiFID net exodus of analysts. Interestingly, in contrast to the findings of Fang et al. (2020) and Guo and Mota (2021), it was the 'best' analysts who were found to be more likely to exit the industry. At the same time, buy-side investment firms in Europe have intensified in-house research capabilities (by employing more buy-side analysts) after MiFID II implementation.

We also see in Fang et al. (2020) some indirect evidence of changes in buy-side behavior. It appears that buy-side analysts are asking more questions on earnings conference calls. Lang et al. (2024) also find that EU firms that lost coverage in the post-MiFID II period increased the frequency of their participation in investor engagement events, such as earnings calls and analyst days. Arguably, these findings reflect firms' increased incentive to provide more information in response to a simultaneous decrease in research production by sell-side analysts and an increased direct involvement of the buy-side in information assimilation.

There is also evidence of a leveling of the playing field for different types of research providers. For example, Liu and Yezege (2020) find that while before MiFID II brokerage analysts issued more accurate forecasts than independent analysts, this difference disappeared after MiFID II, indicating that brokerage analysts lost the information advantage they previously had.

4. Theorizing the Practice of IROs

To better understand IROs' work within the field of investment advice and changes therein, we draw from social practice theory, in particular, the works of Bourdieu (1998, 1986, 2005) and

⁷In the survey, a broader notion of sell-side research quality was used, rather than the accuracy of earnings forecasts alone.

Schatzki (2002, 2005, 2012). Social practice theory offers a comprehensive framework for understanding the organization and dynamics of social life in the field of investment advice. It helps understand the interconnectedness of actions of IROs and the action of other actors in the field through the concept of practices. Practices refer to routinized forms of activity (i.e., sets of doings and sayings) that are organized by rules, purposes, and emotions. They are socially shared and have a specific coherence and regularity. The activities of IROs can be explained as their actions and interactions with other actors as they perform their duties and roles (Lounsbury & Crumley, 2007). They include, for instance, investor engagement, provision of information, improving the credibility of the company through enhanced disclosure, and enabling better compliance and corporate governance (KPMG, 2019). IROs' practice is a manifestation of a constellation of elements including knowing what bodily doings and sayings to perform (e.g., how to conduct themselves at investor conferences and what to say in earning calls), explicit directives and instructions (e.g., internal company policies), mental processes (e.g., interpreting financial data and forecasting), social arrangements, and material objects (e.g., digital platforms, annual reports etc.) (Schatzki, 2002). IROs roles are positions or identities within a bundle of practices and arrangements that come with certain expectations, responsibilities, and tasks. An important analytical construct for understanding the IR practice is IROs' roles.

Practices manifest in social fields. The Bourdieusian theorization of field is particularly useful for our study because it illuminates processes of change (Broersma & Singer, 2021), such as that brought about by MiFID II to the field of investment advice. The actors in this field are diverse but the most central ones are sell-side analysts, buy-side analysts and fund managers, and IROs. They seek, produce, use and disseminate corporate information, while depending on each other culturally (i.e., on technical knowledge, expertise and skills), economically, relationally and reputationally (Bourdieu, 2005). The field influences the practices of actors by defining the expectations and standards for their work, the relationships they form, and the resources they can access.

The heterogenous individuals and groups comprising the field acknowledge the existence of *doxa* or formal and informal 'rules of the game' defining the field in ways that manifest and reinforce their relevance and validity, consolidating and durably embedding them in their dispositions (Bourdieu, 1984). These rules of the game bring legitimacy to the actions and thoughts of the actors and help maintain the prevailing social arrangements and position-takings in the field. Prior to the introduction of MiFID II, certain practices and assumptions were deeply ingrained in the field, such as the bundling of research and trading commissions and the information advantage of sell-side analysts. Appreciating the role of *doxa* (Bourdieu, 2005) in the field of investment advice is particularly relevant to this study as extant research suggests that the new regulatory landscape has challenged the taken-for-granted beliefs, potentially leading to significant changes in the practice of IROs and the power dynamics in the field. Thus, challenges and opportunities that IROs encounter can be understood as stemming from the process of adapting to a new set of 'rules of the game' not only by IROs but also by other actors in the field.

A field is conceptualized as a *field of forces* 'whose necessity is imposed on agents' (Bourdieu, 1998, p. 32) and a *field of struggles* where social positions of the actors are 'strategic emplacements, fortresses to be defended and captured' (Bourdieu, 1984, p. 244). '[S]truggle for power occurs between agents seeking to improve their position within the field' (Broersma & Singer, 2021, p. 824). Thus, the field is a 'historically dynamic and flexible space' (Doblytė, 2019, p. 275). MiFID II is a disturbance that could destabilize the social order in the field of investment advice and engender struggles between the social positions and alter power relations of actors. The struggles may manifest in different ways, with some actors perceiving changes in the 'rules of the game' as an opportunity to fortify their social position, while others view them as constraints that necessitate differentiation in their practices (Millo et al., 2023).

Together with the ‘rules of the game’, the other building block that constitutes social structure in a field is resources or capitals. Actors strive for resources to ‘distinguish themselves from others, obtain more power and improve their position in that field’ (Broersma & Singer, 2021, p. 823). The ability to use resources skillfully is an important consideration. Fligstein (2001) highlights the crucial role of social skills (social capital) in comprehending the distinct contributions of actors and their ability to navigate and negotiate new social arrangements. Social capital becomes increasingly critical in times of social turbulence (Fligstein, 2001), a phenomenon that is likely instigated by MiFID II. Recent research on financial professionals has revealed that they mobilize social capital to effectively respond to existential threats to their professions (Spence et al., 2019; Radcliffe et al., 2018).

While social capital is highly valued in the field of investment advice, the significance of technical capital (i.e., professional/specialized expertise, skills and knowledge) – an important constituent of finance professionals’ cultural capital – as a source of power cannot be downplayed (Spence et al., 2019). Imam and Spence (2016), for instance, reveal that sell-side analysts’ social capital interacts with their technical capital, reinforcing each other. Finance professional’s technical capital, such as mastery of specialized skills, as well as their social networks and relationships (social capital), grant them or enable them to gain access to valuable symbolic capital, such as recognition, reputation, and authority within the field. Symbolic capital plays a significant role in establishing and maintaining social hierarchies and power relations. The ‘exchange rate’ between different kinds of capital can change, causing a once dominant actor to lose its position to another (Bourdieu, 1998). MiFID II arguably has a direct impact on this exchange rate, as it would have likely perturbed the ‘rules of the game’.

The foregoing implies that actors in the field of investment advice aim to improve their social position using social, symbolic and technical capitals and use those capitals skillfully to reorient to and reconstruct ‘rules of the game’. Nonetheless, it has been shown that changes to ‘the rules of the game’ in a field do not necessarily culminate in the dethronement of incumbent actors who find themselves bereft of power (see, for example, Millo et al., 2023). Also, field-based rationalizing allows for actors to resist change even when economic dependency between actors has altered. Literature indicates that this could be due to, for example, finance professionals’ social inertia as a result of inter-personal and inter-organizational interdependencies (Millo et al., 2023) and recalibration of their professional expertise (Spence et al., 2019) in the field of investment advice. Therefore, it is not a foregone conclusion that MiFID II will result in changes in the social position of actors. Hence, we ask the following questions:

RQ1: How have the practices of capital market actors (insofar as they relate to the practice of IROs) and dependencies between the actors changed pursuant to MiFID II??

RQ2: How have these changes affected IROs’ accumulation and deployment of (social, technical and symbolic) capital, and altered IROs’ power in the field of investment advice?

With these research questions we explore how the logic of the field and its actors, their interaction with the field’s new ‘rules of the game’ and any changes in their social, symbolic and technical capitals impact the practice of IROs. The practice theoretical framework and the field level perspective is expected to unravel the social structure underlying the post-MiFID II predicament of IROs.

5. Research Design

Our research questions require gathering of deeply insightful data on IROs’ practice, which cannot be obtained through secondary/archival data sources. Given the well-established difficulty

of gaining access to senior professionals operating in capital markets, we partnered with the UK IR Society. This London-based organization has almost 600 members from UK-listed companies and overseas companies operating in the UK. Our data collection process involved a phased approach: (1) in-depth semi-structured interviews with senior IR professionals, (2) a survey of IR Society members, and (3) two post-survey ‘validation’ interviews. The phases of data collection and analysis are considered in more detail below. The IR Society’s role in this process was to facilitate researchers’ access to senior IR professionals for interviews and distribution of the survey instrument to the members of the IR Society.

5.1. Phase One: In-depth Interviews

In-depth semi-structured interviews provided insights about MiFID II induced changes in roles, responsibilities, tasks and objectives of the actors in the field of investment advice (i.e., investors and sell-side analysts) insofar as they relate to the practice of IROs and the dynamics of interactions between IROs and these actors. We conducted 12 interviews of IR professionals from January to May 2020. Further details about the interviewed participants are provided in Online Appendix I.⁸

In our study, the primary unit of analysis (i.e., main object or entity we analyse) is the practice of IROs in the post-MiFID II era. IROs’ practice transpires in the field of investment advice which is also occupied and molded by other significant players, such as the buy-side and sell-side analysts. Our investigation of the practices of other actors were bracketed to the extent that they impact the practice of the IROs.

The interview questions were kept open ended, enabling the informants to elaborate upon their experiences, observations and opinions (see Online Appendix IV for interview protocol). Follow-up questions and probing was used to obtain insights on: (1) aspects of practices of investors and sell-side analysts that affect and are affected by IROs practice, (2) how those practice elements are affected by MiFID-II; and (3) changes in IROs’ roles, responsibilities, tasks and competences. The interview provided initial direct insights into RQ1 and indirect insights into RQ2. We developed our interview protocol based on a review of the limited IRO literature and, consistent with Brown et al. (2019), we also made extensive use of ‘practitioner literature’ in the form of industry association publications and media reports on MiFID II.

All interviewees consented to being recorded, enabling the researchers to focus on the flow of the interview and following up on interesting points raised during the interview. The recordings were transcribed, coded, and analysed for key themes, employing a process of data reduction, classification, and interpretation, as commonly used in this approach. This method enabled us to identify patterns in the explanations provided by interviewees and draw out unique themes, as summarized in Table 1.

The six themes comprehensively map the transformations within the investment advice field following the introduction of MiFID II. The themes also provide a structured approach to organizing and interpreting the data (Miles & Huberman, 1994) for answering the research questions. When deriving the themes, we were also influenced by concepts from practice theory, exploring: the dynamics of interactions between IROs and other market participants; the evolving tapestry of roles, responsibilities, tasks, and objectives of each actor, and the shifts in IROs’ and other actors’ accumulation and deployment of social, technical, and symbolic capitals. We ensured theoretical validity of our analysis by both scrutinizing the application of Shatzkian concepts

⁸The interviews lasted between 45 and 64 min, with an average of 56 min. Most of the interviews took place face-to-face (before Covid-19 lockdown) with 6 taking place over Zoom. Each interviewee is referred to in the text by a unique alphanumeric code (e.g., IR1).

Table 1. Thematic categories.

No.	Theme descriptor
Theme 1	IR function rising in importance within the organization and impact on IROs capitals
Theme 2	Increased workload of IROs and impact on IROs capitals
Theme 3	Reduced consumption of sell-side research by investors and impact on sell-side analysts' capitals
Theme 4	Increased interactions between investors and IROs and impact on IROs capitals
Theme 5	Changes occurring within the practice of sell-side analysts and its impact on sell-side analysts' capitals
Theme 6	Changes in the interactions between sell-side analysts and IROs and their impact on IROs capitals

encompassing practice organization and Bourdieusian concepts of field, *doxa*, and capitals to our investigative phenomenon and the relationships among these concepts, as emphasized by Maxwell (1992).

5.2. Phase Two: Implementation of the Survey

The second phase of data collection involved a survey of IR professionals. We developed the survey instrument (see Online Appendix V) with questions designed to supplement and validate inferences and themes that emerged from the analysis of interview data. Therefore, the topic sections of the survey instrument closely correspond to topics and themes explored in the interviews, as shown in Table 2 below.

To identify any problems and issues, the survey design process consisted of a series of iterative steps whereby draft questions would be trialed with academic colleagues of the authors of this study as well as a small number of previously interviewed IROs and representatives of the IR Society. This process continued until we identified no issues with the content or technical execution of the survey.

The research instrument was constructed as an online survey containing mandatory questions. Most questions were in the form of Likert-type scales to make the survey user-friendly and cover as much ground as possible in an efficient way. Nonetheless, the survey was comprehensive, taking an estimated 20 minutes to complete.

We used survey Monkey (professional level) to administer the survey between July and December 2020. Initially, the survey was administered to the IR Society's contact list of members. This was then supplemented by working through IR contact details of the FTSE 350 constituent firms, using a combination of emails and direct phone calls. Whichever means of contact used, we sent an email with a link to access the survey instrument. In total, invitations to complete the survey were sent to approximately 400 senior IROs, representing firms included

Table 2. Survey structure and its alignment with thematic categories.

Topic section	Content	Themes
1-3	Personal, professional, and company background of IR participants	N/A
4	MiFID-induced changes in IROs' role and importance within their company	Themes 1 & 2
5.4-5.13	Changes in IROs' dependences/relationships with sell-side analysts	Theme 3, 5 & 6
5.14	Changes in IROs' dependences/relationships with investors	Theme 4

in the FTSE All-Share index (but primarily FTSE 350 index).⁹ We closed the survey in January 2021 having received 80 responses. However, questions that appeared in the initial sections of the survey instrument were answered by a greater number of IROs than those in the remainder of the survey. For example, most questions pertaining to personal/ professional/ company background (i.e., from Sections 1, 2 and 3 of the survey instrument) were answered by between 65 and 80 respondents; questions on pre/post-MiFID II position of IR within the company (from Section 4 of the instrument) were answered by about 60 respondents; while questions on post-MiFID changes in IROs' engagement with external actors (from Section 5 of the instrument) were answered by close to 50 respondents. The total received responses and fully completed surveys represent response rates of 20% and 12.7%, respectively, which is broadly in line with a high response rate of 14.5% achieved by Brown et al. (2019) in their recent work on IROs. A summary of descriptive characteristics of survey respondents is presented in Online Appendix II.

5.3. Phase Three: Post-survey Interviews

Following the integration of survey insights with the themes generated from the interviews, we carried out the third phase of our study which involved two additional post-survey 'validation' interviews. We shared our survey findings and interview insights with the interviewees and asked their thoughts, reflections and interpretations. This helped us validate our research and understand the findings through the lens of IROs. Both interviews were conducted in the Summer of 2022. One interviewee was an IRO interviewed in phase one, and the other an IRO who took part in the survey.¹⁰

6. Findings

The research questions of this paper seek to understand the shifts within the field of investment advice in light of the MiFID II regulations, with a particular emphasis on the implications these changes have on the practice of IROs. Hence, our empirical setting relates to the interactions between the IROs' practice and the practices of key actors in the field of investment advice. Our analysis assumes the field of investment advice as a relational space, where actors continuously plan and act in relation to other actors (Fligstein & McAdam, 2012), situated in a post-MiFID II context.

Our themes that encompass the practices of IROs, buy-side professionals and sell-side analysts indicate that MiFID II has shifted the 'balance of power' in the field of investment advice. This realignment has transformed the interactions and practices among these pivotal players, bolstering the IR function to become a more pronounced and crucial professional domain. This enhancement of the IR function is evident both within companies and in the broader investment advice arena. Underpinning this change is a marked decline in the role of sell-side analysts and the buy-side's adaptive response to these dynamics.

In the following sections, we present our narrative explaining the increased significance and influence of the IR function by demonstrating the changes occurring with the practices of IROs, buy-side professionals and sell-side analysts. In creating this narrative, we logically (but not necessarily sequentially) draw on themes listed in Table 1. We show that MiFID II created an

⁹While we did not, ex-ante, restrict our survey to a specific segment of the market, the vast majority of companies that have a dedicated IR function/team belong to FTSE 350 constituent companies. (Note that FTSE 350 encapsulate FTSE 100 and FTSE 250 companies). Our exploration of companies that are not large enough to make it into the FTSE 350 index shows that such companies almost never have a dedicated internal IR function/team.

¹⁰Note that our survey instrument included a call for expression of interest to be interviewed on the topic after the survey.

environment that enabled IROs to mobilize and advance their social, technical, and symbolic capitals.

6.1. Jostling for Position

Our interview and survey results suggest that after the implementation of MiFID II, the IR function and IROs as a subgroup of actors have experienced a notable increase in significance within their respective organizations. In contrast, sell-side analysts have experienced a significant disintermediation, which has impeded their crucial channels of communication with the buy-side. We explore these phenomena below, drawing on Themes 1 and 2 (see Table 1).

6.1.1. Elevation in the importance of the IR function

It is observed that IR (as a functional area) and IROs (as practitioners) have gained greater importance and recognition (symbolic capital) within their companies, as the following quotes illustrate.

We are expanding, which is facilitated by MiFID. It's what we wanted to do, but it's easier to make the case [with our top management], post-MiFID II. (IR6)

There is a growing need for investor relations. And the impacts of MiFID II are amplified for small cap companies. So, strategically, IR is much more important for boards of small cap companies than it was previously. (IR10)

Our survey results corroborate the interview evidence. As illustrated in Table 3, the majority of the surveyed IROs (52%) agreed with a 'catch-all' statement that the importance of the IR

Table 3. Post-MiFID II changes as perceived by IROs.

Question theme	FTSE 100 ^a			FTSE 250 ^b			All firms ^c		
	↑	No Δ	↓	↑	No Δ	↓	↑	No Δ	↓
IR function's importance to the company	38%	62%	0%	63%	37%	0%	52%	48%	0%
Extent of IRO-top management interactions	27%	73%	0%	40%	60%	0%	33%	65%	2%
Extent of IRO-investor interactions	62%	33%	5%	84%	16%	0%	76%	22%	2%
Volume of investor requests to IROs	68%	32%	0%	92%	8%	0%	80%	20%	0%
IROs' efforts at directly engaging with investors	95%	5%	0%	92%	8%	0%	90%	10%	0%
Importance of IROs' direct engagement with investors	81%	19%	0%	88%	12%	0%	82%	18%	0%
Analysts' knowledgeableability of the covered companies	55%	18%	27%	54%	31%	15%	53%	24%	24%
Analyst coverage	11%	37%	53%	54%	4%	42%	35%	17%	48%
Analyst research quality	0%	33%	67%	16%	28%	56%	10%	31%	59%
Accessibility of analysts' research notes to IROs	5%	50%	45%	0%	68%	32%	2%	62%	36%
Frequency of publication of sell-side research	5%	41%	55%	8%	21%	71%	8%	31%	61%

Notes: The ↑, No Δ and ↓ represent the percentage of responses indicating an increase, no change and decrease, respectively.

^aThe number of valid responses from IROs from FTSE 100 firms range from 19 to 26 (depending on the question).

^bThe number of valid responses from IROs from FTSE 250 firms range from 24 to 30 (depending on the question).

^c'All firms' show the total number of responses from IROs from FTSE 100 and FTSE 250 firms, and 3–4 respondents (depending on the question) that did not indicate their firms' index. The number of valid responses from IROs from 'All firms' ranges from 46 to 60 (depending on the question).

function for their companies has increased after MiFID II, while no IRO agreed with the opposite statements. Also, as data in Table 3 show, the increase in importance is more strongly perceived amongst the mid-cap company IROs (63%) than those representing the large-cap firms (38%).

The rise in the importance of the IR function within the company is also evidenced through survey responses about the extent of engagement between IROs and their companies' top executives. Data in Table 3 show that a sizeable minority of the surveyed IROs of FTSE 100 firms (27%) reported a post-MiFID II increase in their interaction and engagement with company top management, while no IRO reported a decrease. This effect was even stronger in mid-cap (FTSE 250) firms, where 40% of IROs experienced a rise in their interaction and engagement with company top management after MiFID II.

Further indirect evidence of the increased importance of IROs is the emphatic increase in IROs' workload, with over 80% of surveyed IROs (in both FTSE100 and FTSE250 firms) reporting that their workload has increased (see Table 3).

Collectively, the evidence presented above shows the increasingly important role IROs play within their organizations. It appears that the MiFID II empowered IROs within the context of their firms, endowing them with greater symbolic (e.g., legitimacy), social and technical capitals. Social capital of IROs increased as the top executives of their company are now more motivated to cooperate with them (Fligstein, 2001). The frequent engagement with top executives also bolstered IROs technical capital in the form of knowledge (e.g., greater insights into strategy) and professional competencies, which they can utilize in their external engagements.

IRO's role has also increased in importance externally. Next, we discuss changes in IROs' practice and capitals due to MiFID II induced change in investors' consumption of sell-side research that demonstrates this increased significance of IROs. The ensuing discussion is based mainly on Theme 3 (see Table 1).

6.1.2. Disintermediation of sell-side analysts

Fund managers have traditionally compensated sell-side analysts for their research services through 'bundled' trading commissions. Pre-MiFID II, investors could benefit from sell-side research services without directly paying for it. Instead, the fund managers channeled a portion of their trade execution orders, together with associated commissions, through the brokerages that employed the analysts. The bundled trading commissions would then be passed on to the end investors, not affecting the fund managers' bottom line. The MiFID II requirement to unbundle fees for research and trade execution has increased the transparency of the fees paid for sell-side research, requiring fund managers to recognize it as an expense affecting their bottom line, unless they could prove that the purchased sell-side research is of direct benefit to the end client. This creates an imperative for the sell-side research providers to explicitly 'price' and 'sell' their research services, and for the fund managers to manage their consumption of, and budgets for, sell-side research. Faced with post-MiFID II increased research cost pressure, many fund managers chose to reduce their consumption of sell-side research. This could be achieved in several ways, including subscribing to fewer research providers, negotiating lower fees or replacing sell-side research with in-house research resources. The following comments highlight this:

when MiFID II came into force in 2018 where it was still... no-one really knew, investors were still signing up to everyone's research. And then, once they'd gone through a few quarterly payments and saw how much it was charging, that was when they revisited budgets and went, 'Okay, we've really got to now prioritise who we're buying research from'.... there are certain investors who just don't have any sell-side research... (IR10)

The shift away from consuming sell-side research, either through parsimonious use of analysts and/or bringing research resources in-house, created an opportunity for IROs to fill this gap, as the following IRO explained:

they [investors] have invested in their own internal research teams to reduce their reliance on the sell-side. So, what that means is that you as an IR function we have to deal with a lot of the questions that previously an investor would ask the sell-side analyst on your behalf. (IR10)

they [investors] are actually disintermediating the analysts by ringing US [IROs] directly. (IR3)

In the post MiFID II era, IROs are not only engaging with an increased *volume* of questions from investors, but also dealing with *topics* about which they were not expected to be knowledgeable in the pre-MiFID era, as these used to be under the remit of sell-side analysts. Consequently, IROs have had to deepen their technical capital and improve their understanding of, for example, industry trends and the company's performance relative to industry peers on metrics, such as sales and accounting-related matters (e.g., cost bases, intangibles, financial modeling). This mobilization of technical capital by IROs is also implicated in their more direct involvement in the production of the company's corporate reports and collaboration with staff from different parts of the company, as illustrated in the following quote.

I basically work with our internal team, making sure I get some input into those reports, when they're going to be published and then pointing people in those directions and trying to find out information that also is publicly available, say, for the BSDA [the British Soft Drinks Association] or the Food and Drink Federation etc., or internal data that I can share in an anonymised way. (IR12)

The quote also exemplifies a new deployment of technical capital: the new and varied questions to IROs have been channeled into improving corporate disclosures for investors. As suggested by Imam and Spence (2016), who delved into the triadic relationship between sell-side analysts, fund managers and company management, the doxa of the field positioned sell-side analysts as the primary conduit in this triadic. They observed buy-side analysts' heavy reliance on sell-side analysts' perceived technical capital, leading them to limit their discussions with company management to strategy and objectives, rather than diving into the nitty-gritty of accounting analysis. MiFID II has disturbed this triadic status quo, resulting in investors increasingly seeking technical expertise from IROs, diluting sell-side analysts' dominance. Accordingly, sell-side analysts' symbolic capital has been challenged¹¹, creating an opportunity for IROs to assert themselves as credible and immediate sources of information. Thus, IROs are challenging the existing doxa by establishing their expertise, building relationships and providing information, thereby reshaping the power dynamics within the field. Some 33% of IROs reported that engaging with sell-side analysts compared to other market actors became less important after MiFID II, while only 18% of IROs held the opposite view. Perhaps Fang et al.'s (2020) observation of buy-side analysts asking more questions in earnings conference calls is symptomatic of this phenomenon.

Next, we interrogate the growing significance of IROs' direct interaction with investors, drawing on Theme 4 (see Table 1).

6.2. By-passing the Sell-side: IRO Direct Engagement with Investors

In the preceding sections, we argued that MiFID II empowered IROs and strengthened their social standing (symbolic capital) internally, within their companies. However, MiFID II also brought to the fore the importance of IROs' social capital in their dealings with external associated actors, most notably investors. Institutional investors are, arguably, the most important

¹¹ Several of our observations point to a diminution in the positional power of analysts which some might suggest raises the question of 'what residual role they play?' or indeed 'why they still exist?' Although a detailed consideration of these questions is outside the scope of this research, Millo et al. (2023, p. 473) have shown that "interinstitutional economic dependencies and interpersonal ties support and protect the role of sell-side analysts" and may lead to a form of stasis. However, the evidence we see in the disintermediation of sell-side analysts (due to MiFID II) suggest that investors are (at last) beginning to replace some of their analysts with IROs.

of IROs' associated actors, as they are the actual or prospective owners of the companies that IROs represent. Investor relationship building has always been an important facet of IROs' practice because, as the following quote explicates, IROs' social capital can translate into future economic capital.

Building connections and keeping in touch with people has paid dividends over the years. I know of someone who was a very small fund who then moved to one of the big London blue chips and then became a much bigger shareholder. (IR12)

While institutional investors are considered as ultimate beneficiaries and recipients of information produced and disseminated by companies (or IROs therein), the channeling of information from companies to investors, and IROs' engagement and relationship-building with them, would typically occur via intermediaries, such as sell-side analysts.

However, our interview and survey data show that this 'traditional' model of intermediation is disrupted with the enactment of MiFID II, which paved the way for a more streamlined and cost-effective interaction between IROs and investors. Capitalizing on the disintermediation opportunity, IROs have mobilized their social and technical capitals to strengthen their position within the analyst-investor-IRO nexus, thus the field of investment advice. The following response from an IRO highlights the opportunities accruing to IROs:

for me MiFID, you know, I quite quickly saw it as an opportunity... So, our direct trouble has been much more direct contact with the buy-side, much more control over what we do ourselves... So, actually a lot of stuff that I was already wanting to do – take targeting in-house, take much more direct ownership of your interactions and relationships. You know, I actually saw it as a potential catalyst to help us go faster. (IR6)

The IROs we interviewed further noted that 'the interaction [of] investors directly [with] companies has just gone through the roof' (IR9), and they are now 'spending more time talking to the people with the purse strings, than [they] were' (IR3).

Importantly, the desire for more direct engagement was driven by both IROs and investors as they both saw MiFID II-caused economic incentives (that we discuss in later sections) for the disintermediation of traditional information intermediaries such as sell-side analysts. The vast majority of our surveyed IROs representing both the large-cap (FTSE100) and mid-cap (FTSE250) firms experienced a post-MiFID increase in investor requests for information and one-to-one interactions (see Table 3).

At the same time, MiFID II-induced frictions in the information environment and the traditional analyst intermediation model of investor targeting incentivized IROs to act 'proactively' by intensifying their efforts to target and engage with investors directly. The following quote illustrates this point.

The implication [of MiFID II] is it then kind of falls onto my shoulders to engage more with investors directly... You kind of realise it's just a people game really and actually people kind of appreciate it... It doesn't matter who they work for, whether it's BlackRock or Capital. (IR12)

Confirming this view, 90% of surveyed IROs reported that after MiFID II they intensified their efforts to directly target and engage with investors, and 82% agreed that the value and importance (to their company) of direct engagement with investors increased after MiFID II (see Table 3). IROs who were once 'reactive' in their practice of dealing with investors, have now become 'proactive', conducting targeted, disintermediated investor engagement work on a frequent basis. The mention in the above quote of investors valuing their interactions with IROs and the intensity with which IROs engage in it signifies the cultivation of social capital among IROs.

Social capital has increased in currency among IROs. On the one hand, there is a need to establish and enhance relationships with internal and external stakeholders to acquire the required

information and to gain the knowledge (i.e., the technical capital) to communicate that information to investors. On the other hand, IROs are now required to build relationships with investors. The relationship building extends to socializing with investors, as the following quote indicates.

... the buy-side elements are probably becoming more important. ... I organised that [i.e., a factory visit] directly with them and then took them up to Rugby for the day¹² Four of them came along in person for the meeting. They took a whole day out for that. (IR12)

With the importance of social capital increasing, metrics such as the frequency of reaching out to investors (measured by, for example, number of investor meetings organized, emails/calls to investors etc.) and investor feedback survey results have become more important key performance indicators of IROs. One can argue that the changes in the ‘rules of the game’ in the field has increased the exchange rate of social capital for IROs (Bourdieu, 1998) as they are now ‘recognizing that the benefit of direct engagement with investors matters, and matters more, and it’s a key part of the role’. (IR1).

Summarizing the above impacts, we can conclude that MiFID II had a transformative effect on IROs’ practice on the part of their engagement with other actors. MiFID II is implicated in transforming the extent, nature and value of IROs’ relationships with investors. It incentivized mobilization of social capital, increased the perceived value of this capital to IRO’s firms, and helped IROs to ‘move up’ in the ranks of perceived importance (symbolic capital) amongst key actors in the field of investment advice.

The next section takes a deep dive into the structural changes that occurred in the sell-side analysts’ field, explaining their implications on IROs practice and capitals. We draw on Themes 5 and 6 (see Table 1) in this discussion.

6.3. *Developing New Skills and Expertise to Cope with Sell-side Changes*

Our data reveal a fascinating tapestry of sell-side research houses’ response to fund managers tightening their research budgets after MiFID II. This has significant implications for the practice of IROs. The key issues we tackle in this section are IROs having to: (1) educate analysts, (2) respond to divisions in sell-side research practice, and (3) manage market expectations and analyst consensus.

6.3.1. *Juniorization and educating analysts*

Lang et al. (2024) allude to an exodus of experienced sell-side analysts as research departments reduce their headcounts and budgets due to MiFID II. Our data backs up this claim, as shown by the following quote, among many others, which also highlights that the composition of the sell-side analyst workforce is changing.

I’ve seen more turnover of analysts. So, ... one or two of the very best analysts have left the industry, and have gone to work in private equity, [or] somewhere else. ... I think it’s much more difficult now for analysts to get paid, in the way that they were. So, I think, it is because of MiFID II and the unbundling of the cost of research, that has shone a very bright light on research as a cost centre. (IR3)

The interviewees revealed that the sell-side analysts being replaced are often the more experienced (and costly) ones, resulting in ‘juniorisation’ of the workforce. Commenting on the FCA’s assertion that MiFID II did not cause such a phenomenon, IR5 bluntly remarked: ‘It was exactly what that FCA report said – it didn’t happen – and that I don’t know, it’s just absolutely wrong.

¹²Emphasis added.

I haven't met anyone who agrees. We have no idea who the FCA was talking to'. The 'juniorisation' strategy¹³ enables the research houses to reduce the research production costs without compromising its coverage universe (and visibility amongst client investors). The following quote illustrates this view.

So, as good people have left, typically, they've been replaced with their junior or in quite a high number of instances a graduate trainee... if you've got a sell-side brokership where you've got a very effective sales force, you are actually having some, I would say, pretty poor-quality research being brokered just as heavily as the really thoughtful, insightful piece that might've been there five years ago. So, it's kind of shaken out quality, but it hasn't yet shaken out fully the level of coverage. (IR6)

With the departure of seasoned individuals, the field of investment advice experienced a loss of valuable technical capital, resulting in a decline in the quality of research and insights offered. However, funding-constrained research houses appear to be employing tactics to give the illusion of maintaining consistent research coverage, clearly indicating a change in their practice organization (Schatzki, 2012). To this, an IRO who was expecting a reduction in analyst coverage expressed his surprise:

The reality is... our coverage has actually gone up bizarrely. We were at about 16 or 17 before MiFID, which is quite high, I think, for a FTSE 250. We're about 18 or 19 now. MiFID has had zero impact for us in terms of coverage on the face of it, in terms of the number of analysts. It has had an impact in terms of the quality of coverage... I would say we see less thematic or less deep-dive research. (IR12)

As shown in Table 3, 53% of surveyed IROs report that a greater proportion of sell-side analysts appear less knowledgeable about their company now than they were before MiFID II. Our interviews reveal that these less knowledgeable analysts are made to cover up to 50% more companies than they used to, and more sectors. Rebuilding technical capital of the sell-side workforce has become a substantial activity of the IR practice, taking a significant proportion of IROs time.

As perceived by IROs, analysts' lack of knowledge has also translated into lower analyst forecast accuracy, which ultimately weighs negatively on the market's valuation of a company. In response, IROs expanded the scope of their practice. In addition to performing their 'traditional' role of being a conduit of business/financial information, IROs are now delivering analyst education – an activity that places greater value on IROs' technical and social capitals. Elaborating on the painstaking nature of educating inexperienced sell-side analysts, IR4 stated that 'In the moment, it feels like I'm really having to drag them to understand what we do'. Another IRO added 'one extreme we have got to stop them just making mistakes... we spend more time spoon-feeding analysts than we used to [or] have to... we actually send them all a spreadsheet now to show you how to do it' (IR5). Our unreported survey results also indicate that the increase in IROs' time and effort directed at educating analysts was most prevalent amongst the IROs of FTSE 250 firms (i.e., firms that would typically have lower analyst coverage).

6.3.2. *New divisions in sell-side research*

Analysts, far from constituting a homogeneous collective, exhibit noteworthy dissimilarities stemming from their varied analytical approaches and horizons (Abhayawansa et al., 2022). Millo et al. (2023) identify differences between subgroups of sell-side analysts in relation to calculative practices around consensus numbers based on their symbolic and technical capital.

¹³It is important to note that other studies have noted this juniorization phenomenon but unrelated to MiFID II. For example, Millo et al. (2023, p. 469) refer to the lack of an incentive for investment banks to "hire experienced analysts (at significantly higher salaries) who produce higher quality research because doing so will not lead to a concomitant increase in revenue." Our argument is that MiFID II has accelerated that phenomenon.

Sell-side analysts' heterogeneity is an artifact of their continued vying for advantageous positions vis-à-vis other actors within the field, while simultaneously attempting to align with the established 'rules of the game'. When delving further into IROs' responses to post-MiFID II constrained research budgets, we too identify two different camps of analyst houses. It seems that while some sell-side firms respond with expanding research coverage using junior analysts, others opt for producing a limited quantity of high-quality differentiated research. This approach is articulated in the following comment:

So, [investment bank A] even [investment bank B] and one or two others, they've made that shift. I think the head of research has done a good job at all of those places saying that: 'We can't sell results commentary. No one wants that and not interested. So, what are you going to do to justify your existence as an analyst?' And it means, typically, fewer reports: they tend to be longer and more in-depth and that something that you can drop on the table, it makes a sound in front of the guy paying for it, and say – 'Six months work has gone into this. It's unique and we think it really adds value to what you are doing. So, write us a cheque'. (IR3)

Results in Table 3 illustrate the mixed views of surveyed IROs on how sell-side analysts' research coverage and quality has changed, which provides corroborative evidence on the coexistence of the two camps. The majority of surveyed IROs working for FTSE100 companies believe that analyst coverage and research quality relating to their company has decreased, while the majority of IROs at FTSE250 companies believe that research coverage has increased, but research quality has decreased or remained the same. Only a minority of IROs see an increase in research quality and that too is in relation to FTSE 250 companies. When taken together, this survey evidence suggests that while some sell-side research firms have intensified their focus on enhancing research quality by shifting their focus to in-depth analyses, this has not prevented an overall perceived decline in research quality.

Thus, MiFID II intervention in the field processes is manifesting in the form of producing divisions and re-drawing boundaries between groups of research houses, as they renegotiate their micro-positions within the field (see Savage & Silva, 2013). The new divisions on the sell-side are having a significant impact on the activities of IROs, with a consequent increase in the power they wield in the field of investment advice.

6.3.3. Managing market expectations and earnings consensus

Effectively managing market (and analysts') expectations about company earnings is a critical task for IROs. Traditionally, IROs have achieved this by keeping sell-side analysts appropriately informed, leading them to publish research that better mirrors the company's reality. An integral aspect of this procedure involves comprehending the sell-side analysts' viewpoint, which can be gleaned from the results/earnings preview notes they release. If expectations of sell-side analysts do not align with the company's projected earnings, IROs could intervene to steer analysts' expectations and perception of the company's performance. However, as results in Table 3 and the following quote illustrate, these preview notes are not as prevalent since MiFID II.

All the [investment] banks used to put out a preview note before. I would do pre-close calls and then, a week or two later, a load of preview notes would come out and it's a bit like herding cats. Making sure that the numbers that they've got are broadly sensible, and then it kind of amalgamates that to consensus. When your results come, what every IRO hopes for is that you have a small beat on consensus. To save your job on a long-term basis you need to slightly beat consensus every six months. . . . Now you're seeing less preview notes. We're covered by the same number of analysts but maybe only a third of them put preview notes out. . . . (IR12)

In the preceding section, we explained a transition among some sell-side analysts from producing commentary-based reports to more in-depth research analyses. This shift could account for the decline in preview notes. Due to the decline in frequency of published research and accessibility of their preview notes, IROs are facing challenges in staying informed about and steering market

expectations. As the above quote indicates this predicament poses a threat to IROs' credibility and symbolic capital. In response, IROs have intensified their efforts to keep analysts informed.

... it feels like now I'm having to do more chasing to make sure that people are on top of their numbers etc. . . . when it comes to a corporate and you can't rely on the fact that all of your analysts have bothered to properly listen and update their forecasts, that is a really bad outcome. I'm spending more time having to go back over the basics of what we said on our numbers and spending more time managing consensus. (IR7)

Also, the decline in published research overall and, more specifically, maintenance-type research (e.g., preview/review reports and flash notes) results in a reduced pool of analysts providing data to aggregators such as Bloomberg. Consequently, IROs have had to mobilize their technical capital by taking up such (new) activities as collecting and checking analyst forecasts, compiling and self-publishing analysts' consensus, and disseminating analyst forecast data to the aggregators, as indicated by the representative quote below:

People [sell-side analysts] put in less numbers into Reuters, FactSet, Bloomberg, and therefore the quality or the depth of their consensus is becoming more fragile and a bit more volatile. There are only half a dozen banks in there. I don't know how many is in the Bloomberg consensus now. . . . I spend more time on collating my own consensus. I'll basically email and ring around the banks and say can you send me your numbers. Then I punch them into a spreadsheet and publish them on the website. (IR12)

This illustrates that MiFID II challenges the doxa surrounding the consensus estimate creation by disrupting the traditional sources of information and requiring IROs to rely more on their own collation and verification of data (i.e., technical capital). Additionally, the noticeable dip in the depth and quality of consensus estimates from aggregator platforms, combined with IROs progressively filling this gap, underscores a shift in symbolic capital among actors. Together with these transformations new tasks and emotions (Schatzki, 2005) are being created in IROs practice.

Millo et al. (2023) posit that investment advice involves diverse actors collaborating to enhance decision-making. They point towards Brown et al. (2015) who showed that sell-side analysts and buy-side actors collaborate, enriching each other's outputs. Accordingly, it can be argued that, despite the promotion of IROs as actors and IR as a function in the field, the reduced interaction between sell-side analysts and investors (together with diminution of technical, social and symbolic capitals amongst the sell-side) is a net loss to the field.

7. Summary and Conclusions

This study explores how the field of investment advice has changed pursuant to MiFID II and how changes in field attributes are implicated in changes in the IR function and practice of IROs. We draw from social practice theory (Bourdieu, 1986, 2005; Schatzki, 2002, 2005) and Bourdieusian theorization of field to explore these changes within a contagion of interrelated changes in practices and positions of other actors in the field: sell-side analysts and professional investors. IROs are traditionally depicted as conduits of corporate information between the company management and the investment community (IR Society, n.d.), tasked with coordination of the company's communications and engagement with existing and prospective investors and analysts (Brown et al., 2019; Chapman et al., 2022), and keeping the C-level executives abreast of investor feedback (Godsell et al., 2023). While this portrays IR as a static, time/context-invariant field of practice, we show that MiFID II spurred significant changes in the social structure of the field of investment advice, and in the practice of IROs and the importance of the IR function. We show that MiFID II changed the 'rules of the game' and power relations amongst IROs, investors and analysts. It disrupted the field of investment advice by demoting some of the 'traditional' ways of operating and engendering new practices of, and engagement patterns between,

these actors. The resultant jostling for position helped IROs advance their social position in the field relative to those of sell-side analysts who dominated this field prior to MiFID II, leading to a new state of equilibrium in the field.

More specifically, we show that MiFID II created an environment that incentivized two-way direct engagement between IROs and investors whilst reducing their reliance on ‘traditional’ sell-side intermediaries whose ability to add value by ‘brokering’ information and relationships deteriorated under the new regime.¹⁴ We show that MiFID II enabled IROs to strengthen and mobilize their social (networks and relationships) and technical (expertise, skills and knowledge) capitals to gain valuable symbolic capital (recognition, status and authority) in the field – both within their respective organizations and amongst their external counterparty actors. Importantly, this study unpicks the anatomy of this change and analyses several important drivers and implications of these effects.

The post-MiFID II reduction of sell-side analysts’ ability to act as primary information and relationship intermediaries between companies and investors is seen by IROs as the main driver of these effects.¹⁵ The unbundling of payment for sell-side research forced investors to optimize their research consumption and the sell-side to reduce their research production cost. The resulting reduction in investors’ demand for analysts’ intermediation together with the reduction in quality or accessibility of sell-side research and analyst ‘juniorisation’ (as observed by IROs) opened a space for a more cost-effective direct engagement between IROs and investors. The strategy adopted by certain sell-side research houses to pivot towards in-depth research, veering away from maintenance-style research notes, or narrowing their coverage universe, has not been affective in halting the erosion of analysts’ jurisdiction or curbing the growing presence of IROs in the field of investment advice. We show that IROs capitalized on the opportunities created by fragmentation of the sell-side subfield and the disintermediation in the capital market. They filled the emergent knowledge gap by developing and mobilizing their technical and social capitals¹⁶ and by engaging in activities and practices¹⁷ that were either the realm of sell-side analysts in the pre-MiFID II era or invented due to the changed practices of those actors (e.g., reduction in the prevalence of preview notes).

The perceived decline in sell-side analysts’ ability to help IROs with investor access has transpired as another driver of direct IRO-investor engagement. Also, analysts are now perceived by IROs as a less effective channel for gathering comprehensive investor feedback and market intelligence. The onus of identifying and targeting potential investors, building social rapport with them, and gathering reliable market intelligence is now on IROs. We show that IROs stepped in to compensate for analysts’ reduced ability to leverage their social and technical capitals by developing and deploying their own capitals, changing their practice.

Overall, these changes depict a reconfiguration of the distribution of capitals (and relative power and position) between key actors, where an external regulatory shock has forced redistribution of social, technical and symbolic capitals from previously dominant sell-side analysts to IROs. And while these changes have elevated the importance of IR in the field, of major

¹⁴Our characterization of IROs as ‘two-way information intermediaries’ is relatively novel, as such characterization has only been suggested in one recent study by Godsell et al. (2023). However, in addition to corroborating this characterization by empirical evidence situated in a post-MiFID II context, our study explicates drivers behind the increased significance of IROs’ two-way *modus operandi*.

¹⁵However, we do not suggest that this is evidence of a major structural shift or collapse in sell-side research as some had predicted (see, for example, Armstrong, 2018), as the sell-side may have been buttressed in other areas, e.g., by their central role in such high value capital market events as IPOs and M&A transactions.

¹⁶E.g., knowledge and technical expertise to deal with new/varied technical questions from investors; relationship-building and direct investor targeting.

¹⁷E.g., analyst consensus gathering and management; market intelligence/feedback gathering.

concern is the evidence that MiFID II has reduced transparency. We identify juniorization of the sell-side, decrease in availability (and quality of) analyst research, and internalization of research in-house on the buy-side as key factors impeding transparency.

Our findings suggest a rapid increase in the diversity and depth of social and technical expertise that IROs need to mobilize and a significant increase in their workload, as they now engage with investors' more diverse needs and demands, educate younger analysts, and deal with lower levels of transparency by acting as intermediaries between the company and external actors. We expect a shift of resources to investor relations over time to cope with the increased intensity of these demands. As the observed momentum towards a more proactive and disintermediated IR model continues, we expect to see an acceleration in the ongoing professionalization of the IR function and more importance attached to, for example, specialist IR qualifications which our evidence suggests are not currently commonplace. With the level of technical capital expected from IROs significantly increasing, it is likely that IROs with non-technical (e.g., communications) backgrounds will struggle to be effective. Professional bodies that provide professional development programs and grant professional IR qualifications, such as the UK IR Society, should continue identifying and integrating into their curricula development of technical skills and expertise that become essential in the post-MiFID II environment.

When turning to policy implications we need to proceed carefully. MiFID II is a substantial piece of legislation with a wide range of capital market implications beyond the relatively narrow scope of our study. The legislation has been in place for five years with a significant part of that time comprising a turbulent period of a global pandemic. Following the UK's departure from the EU, the UK government has been looking to overhaul MiFID II to maintain the strength and enhance London's place as a key financial center (for example, Noonan et al., 2022). We see several implications for regulators emerging from our study. Regulators have already made some limited amendments to MiFID II, the most relevant of which to this paper being the exemption for the coverage of companies below the £200 m capitalization level. Although, on balance, our evidence supports this exemption, analyst coverage per se does not appear to be a point of dissatisfaction prevalent among the large (FTSE 100) and mid-cap (FTSE 250) companies. What is most concerning for such companies is the perceived deterioration in quality and accessibility of sell-side research, the increased trend of juniorization (de-skilling) of analysts, and the resultant (perceived) diminution in transparency. These concerns arise from a diverse range of different sources and consequently require more comprehensive policy solutions. Therefore, we would support legislative actions that not only target issues of coverage for the small-cap segment of the market but address broader issues pertaining to companies of all sizes and other actors in the field, such as, quality and accessibility of sell-side research, effectiveness of intermediation mechanisms that facilitate investor/corporate access, and market transparency.

We see several opportunities for future research. Firstly, researchers should examine whether our documented evidence is an 'artefact' of the UK market for information or has more widespread generalizability. Research should be carried out in other European jurisdictions, particularly those where companies are less reliant on equity capital markets (e.g., Germany), or in markets that do not fall under the direct jurisdiction of, but yet might be indirectly impacted by, MiFID II (e.g., Australia and US). Secondly, examining the impact of MiFID II from the viewpoints of sell-side analysts and investors would provide a more comprehensive picture. Furthermore, such investigations could shine a light on whether the dilution of sell-side positional power, that we observe in our study, is portentous to further developments that may undermine the future role of analysts. Thirdly, utilizing a positivist approach and gathering comprehensive IR data would allow for statistically rigorous analysis of the impact of MiFID II on various aspects of IROs practice, interactions within the field, and company/context/market-specific effects. Finally, future research should address transparency concerns associated with MiFID II.

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ORCID

SUBHASH ABHAYAWANSA  <http://orcid.org/0000-0001-6931-4778>

MARK ALEKSANYAN  <http://orcid.org/0000-0001-7826-1452>

KENNETH LEE  <http://orcid.org/0000-0002-5288-2848>

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