How investment analysts frame information matters to their careers

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Institutional Investor's All-American ranking is the Oscars of sell-side securities analysis. Sell-side analysts work for investment banks or independent research firms to gather, interpret, and disseminate knowledge about a particular industry. Unlike buy-side analysts, who make actual investment decisions, sell-side analysts offer their audience of institutional investors – such as chief investment officers and portfolio managers of money management firms, mutual funds, hedge funds, and pension funds –investment advice (in terms of buy, sell, or hold recommendations) and analysis of firm and industry prospects. At the end of every year, the prestigious industry magazine *Institutional Investor* invites investors to pick the best analysts per industry: first, second, third place or runner-up. Inclusion in this short list provides analysts with substantial financial rewards, visibility, and prestige. How do certain analysts make the cut, and are celebrated as "stars" in their industry, while others do not?

An obvious answer would point to differentials in analysts' abilities, as reflected in the quality of their advice. In other words, analysts that give the most profitable investment advice in terms of buy, sell, or hold stock recommendations to investors should get a nomination in the rankings. Another argument is that popular analysts – analysts ranked the previous year in Institutional Investor – are more likely to be voted again because of their greater reputation and visibility. Yet my co-author Klaus Weber (Northwestern University) and I were not satisfied with these arguments. Although numbers matter a lot in the institutional investment industry, which mobilises trillions of dollars a year (for example, $10.5 trillion in assets in 2013), we believed that financial markets are also cultural markets. As such, we suspected that how analysts frame – present or package – information, matters as much as the information itself.

To test our intuition, we initially conducted 26 in-depth interviews with 14 analysts and 12 investors between 2004 and 2013. We complemented the interviews with over 200 newspaper and trade press articles, six business school cases, 50 securities analysts' reports and several academic articles about the industry. Finally, we collected and coded 36,012 research reports that covered the biotechnology and pharmaceutical industry between 1989 and 2012. With this data, we aimed at testing whether and how analysts' framing choices in their reports influenced investors' appreciation, as measured in the publication of a short list of the best analysts of the year.

We hypothesised that, in rich discursive contexts, audiences evaluate framing with reference to their own needs **(resonance),** the frames deployed by the same actor in previous communications **(consistency),** the frames used by other actors **(moderate novelty),** and information about the framer's standing compared to others **(status).**

Our findings show that investors appreciate resonance, which allows them to process information faster and understand action implications; consistency, which speaks to the need of building a portfolio of perspectives; moderate novelty, which suggests no tolerance for redundant information, but also a need to quickly apprehend it; and finally, status, which indicates the difficulty of screening the entire population of analysts and giving more weight to information from certified important sources.

More specifically, we found that framing is a particularly important tool for analysts who have never before been recognised as stars (individual status) and who cannot benefit from association with a prestigious employer (organisational status). As we had originally expected, analysts' stock picking ability (as measured in the *WSJ*'s ranking) mattered. As did the visibility afforded by a previous ranking in the magazine. Yet much variance remained unaccounted for and cultural factors did play a significant role.

Why did the framing of reports influence investors' evaluation of analysts? This fact speaks to how reports are actually used, interpreted, and evaluated by investors. What emerged from our qualitative analysis is that in the course of over twenty years, the way in which analyst reports are used in practice did not substantially change; investors use reports to look for "a case for the bull and the bear," not for stock picking advice. Analysts' role is then better conceptualised as "conversation makers" or producers of discourse who can develop interesting perspectives and opinions about a firm or an industry. In this role, analysts do more than evaluate or classify stocks. They facilitate financial markets as discourse makers who keep conversations ongoing among participants by framing information in engaging ways.

Moreover, the effect of framing does not wane over time in favour of more substantive factors, possibly because of the inherent degree of uncertainty and guessing required in financial markets. The implication of our research for any professional is that your *products* – service, advice, or insights – say a lot about you. So pay attention in how you "frame" your products, and, while you do so, keep in mind the needs, preferences, and time constraints of your audience. That, coupled with your underlying qualities, will surely make you a star.

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Notes:

- *This article is based on the author's paper Marks of Distinction – Framing and Audience Appreciation in the Context of Investment Advice, co-authored with Klaus Weber, in Administrative Science Quarterly June 2015 vol. 60 no. 2 333-367*
- *This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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