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Abstract

Purpose
Problems arose in the 'Market for information' (MFI) during: the 'dot.com' boom; the Enron case; Northern Rock failure; and during the great financial crisis (GFC) of 2007-09. The paper seeks to extend understanding of the 'market for information' through field research and theoretical sources. It seeks to understand the MFI during relatively stable periods and during periods of rapid change, crisis and failure. It seeks to use these insights to propose changes to reduce the possibilities for negative change and problems in the MFI.

Methods
Field studies are used to develop an 'empirical narrative' for ongoing MFI structure, process and outcomes during relatively stable periods. The paper develops a 'theoretical narrative' to extend understanding of the MFI empirical insights

Findings
The paper reveals that MFI structure as: knowledge; and social context; is central to ongoing MFI economic processes for MFI agents. Outcomes include changes in markets, firms and others. Change and problems were means to understand interactions between MFI social structure, knowledge, actions and outcomes as they rendered visible the previously invisible.

Originality, Implications
The paper demonstrates that a coherent combination of new empirical narrative and theoretical narrative is essential to develop a critical stance, new policy prescriptions and new regulation to deal with problems and change in the MFI. This provides the frame to propose changes in the 'world of knowledge' and in (concentrated and elite) social and economic structures in the MFI. It proposes: making explicit shared knowledge in the MFI; monitoring of change processes: and promotion of active formal learning.

1. Introduction

Section 2 briefly outlines literature on the idea of the MFI, recent problems, and aims of the paper. Section 3 outlines the research method**.** Section 4 begins with a brief summary of empirical and theoretical narratives used in the paper. These are developed in sections 5 and 6. Section 5 uses a range of historic field research studies to interpret economic, knowledge and social processes in production, exchange, and use of information between MFI agents. The latter focuses on company management, analysts and fund managers. Section 6 explores change in the MFI. Section 7 discusses major problems in MFI structure, knowledge and economic outcomes. It focuses on events such as the 'dot.com' boom, the Enron case, Northern Rock, and the great financial crisis (GFC) of 2007-09. Both sections 6 and 7 make visible many interactions between MFI agents, social structure, knowledge, actions and outcomes. Section 8 uses the theoretical frame or narrative developed in sections 5 and 6 to analyse MFI problems and failures outlined in section 7. Section 9 argues that regulators, academics, and practitioners require: a conceptual frame based on empirical and theoretical narratives; to develop a critical stance; policy prescriptions; and regulation in the MFI.

2. Literature, problem and aims

Barker (1998) showed that the MFI was a hidden but substantial mechanism in the world of accounting and finance. It connected (information about) real companies (and their competitors and product/factor markets) to the stock market via information intermediaries such as analysts. Prior studies showed how information was central to the finance system (Healy and Palepu, 2001). The MFI covered many companies, intermediaries, and financial institutions in connected world financial centres. It was an intermediary mechanism to process, create and exchange information (about companies and their transactions) for various purposes such as corporate valuation, assurance, and accountability (Barker, 1998; Holland and Johanson 2003).

However, problems arose in the 'Market for information' (MFI) in the period 1998 to 2009 and these were contributors to problems in equity markets, major firms, information intermediaries and banks. Problems arose in MFI structure, knowledge and economic outcomes during events such as the 'dot.com' boom(Healy and Palepu, 2001), the Enron case (Healy and Palepu, 2003), Northern Rock (Fallon, 2015), and the great financial crisis (GFC) of 2007-09 (Holland, 2010). Many of these problems arose during longer term MFI change processes *and associated changes in real and financial markets for firms and banks.* The problems became visible during major information and knowledge failures in the MFI during the major events noted above.

As a result, many problems have occurred in the world of finance and MFI since the seminal work of Barker (1998). This paper seeks to build on prior work and develop the idea of the MFI taking into account the many issues arising from 2000 onwards. The paper seeks to improve visibility and understanding of the 'market for information' (MFI) through field research and theoretical sources. It seeks to understand the

MFI during relatively stable periods and during periods of rapid change, crisis and failure. It seeks to use these insights to propose changes to reduce the possibilities for negative change and problems in the MFI. The development of more complete and critical theoretical framework matched to empirical insights is proposed as a key means to stimulate the debate and open up the private world of the MFI.

3. Research method

The paper identifies common themes across a related set of qualitative field based research studies (Barnett-Page and Thomas, 2009) in the world of information in finance. The themes and the links between them are used to develop an 'empirical narrative' (Golden-Biddle and Locke, 2007) for the MFI. This in turn provides an empirical focus for developing a theoretical narrative concerning the MFI. The field studies and narratives together provide a more complete explanatory framework to understand and critically analyse the MFI.

'Agents' of interest in the MFI are primarily restricted to company management, analysts and fund managers. Given the scope of the MFI it is difficult to conceive of a single comprehensive field study to explore the nature of the MFI. However, many researchers have conducted field studies into specialist MFI information activities between 1990 and 2016 (see Table 1). The studies shared many common features, including using the same research setting in the form of the MFI to conduct field investigations of how specialist MFI agents produced, exchanged, and used information. The research studies involved collection and processing of similar qualitative data on MFI agents and using similar qualitative research methods. The common factors in field studies provide means to match 'like' with 'like' (Kearney, 1988) in comparisons and integration of the studies (Stoner et al, 2004; Barnett-Page and Thomas, 2009). The field studies reveal common themes across specialist MFI agents. These concern: the nature of information; specialist forms of information production and exchange; links between the agents and connected information tasks; use of each other's information in decisions and outputs; the role of knowledge and social contexts in MFI processes; and various outcomes. The scope of the analysis was limited to the MFI and its agents and firms as subsets of the world of finance. For the benefit of simplicity and abstraction the finance social system and the associated MFI social sub-system were assumed, *in section 5,* to operate in a stable and semi-autonomous manner relative to a larger social system and economy. *Sections 6 and 7* relax this assumption when dealing with change and major problems.

Golden-Biddle and Locke, (2007) distinguish between 'field based stories' and 'theoretical stories'. 'Field based stories' refers to empirical findings about changing information activities and information intermediation processes in the 'market for information' (MFI). Analysis of the range of historic field research studies in table 1 was the basis to develop an 'empirical narrative' (Golden-Biddle et al, (2007) revealing links between the common themes identified for the MFI and its agents. The narrative concerns economic, knowledge and social processes in production, exchange, and use of information between MFI agents. The narrative covers periods of relative stability, rapid change, and major problems and crisis from the 1990s to 2016. The empirical narrative provides a focus for developing a theoretical narrative concerning the MFI. The ‘theoretical story’ is based on existing theoretical conversations in a field and identifies the area of studies ‘to which researcher’s grounded theorizing can make a contribution’ (p122, Locke, 2001).This refers to a range of conventional literature and theory in finance, management, behaviour, sociology of finance, and institutional setting.

Table 1 Field studies in the market for information – specialisms, structure, process, outcomes

Field studies on corporate disclosure in the market for information.
Gibbins et al (1990) - Holland (1996), Holland & Stoner (1996), Holland (1997), Holland (1998a), Holland (1998b) Holland (2005) , Holland (2009), Mayorga, (2013), Chen, Danbolt, and Holland (2014)

Field studies on fund manager research and role in the market for information.
Holland (1995), Holland and Doran (1998), Holland (2002), Holland (2006), Roberts et al (2006), Henningsson (2009), Barker et al (2012), Holland (et al 2012) ,Coleman (2014, 2015), Holland (2016), Henningsson et al (2015)

Field studies on sell side analyst research and disclosure in the market for information
Barker 1998), Marston (2008), Holland et al (2014), Haig et al (2014), Maise (2014)
Abhayawansa et al (2015) Imam & Spence (2015), Neville & Coughlan (2015)

Field studies and literature reviews on the broader idea of the market for information
Barker (1998), Howcroft (2001), Healy & Palepu (2001), Healy & Palepu (2003) , Holland (2003), Holland and Johanson (2003), Holland (2004), Palepu et al 2008, Preda (2005).

4. Empirical and Theoretical narratives

Brief versions of MFI empirical narrative and theoretical narrative are developed in section 4 to provide a ‘map’ to navigate the paper (Golden-Biddle and Locke, 2007). Readers can get an early overview of the: richness of the data; overall empirical patterns; theoretical interpretation of how the MFI functioned in relatively stable periods; and how major problems and failures arose. The combination of empirical insights and appropriate theory is intended to enhance understanding, meaning, and power of critical analysis for those in this field. It is intended to enhance trust and confidence for readers concerning judgements employed in interpreting cases and constructing an MFI empirical narrative. The aim was not to develop or test these theories, but to position the paper, its issues and empirical structure, relative to a wide range of relevant literature in a broader theory frame. The aim was demonstrate their collective power in interpreting the combined phenomena, and in contributing to further policy development.

Empirical narrative about MFI structure, process and outcomes – in varying conditions

The paper uses historic field studies by authors such as Barker (1998), Healy and Palepu (2003), Holland and Johanson (2003) and Holland (2004) as means to identify information related activities in the MFI. Figure 1 illustrates how the MFI involved knowledge and social contexts in economic processes in production, exchange, and use of information between agents such as company management, analysts and fund managers. Information concerned, inter alia, ‘hard’ information (eg earnings estimates) and ‘soft’ information (eg company intangibles) used for assurance and valuation decisions. Agent and parent firm knowledge were important resources available to MFI agents (Holland et al 2012). Information intermediation actions of MFI agents, teams and parent firms took place in social and knowledge contexts. Outcomes included changes in markets, networks, firms and others.

MFI structures and agents

The field studies revealed that the MFI consisted of an informal structure of social networks of specialist information (production and use) firms and their agents (Holland, 2003; Holland and Johanson, 2003). The wider set of agents included: corporate executives and financial communications staff; analysts; fund managers; investment consultants; financial media; auditors; rating analysts; and regulators. The agents included individuals in teams, firms and MFI networks. They functioned in: investment banks; financial database firms; asset managers; news media firms; and regulators. They operated in financial centres such as ‘City’ of London, and ‘Wall St’ and had economic incentives to connect information production, exchange and use in financial centres and markets through social networks, organisational forms and technology.

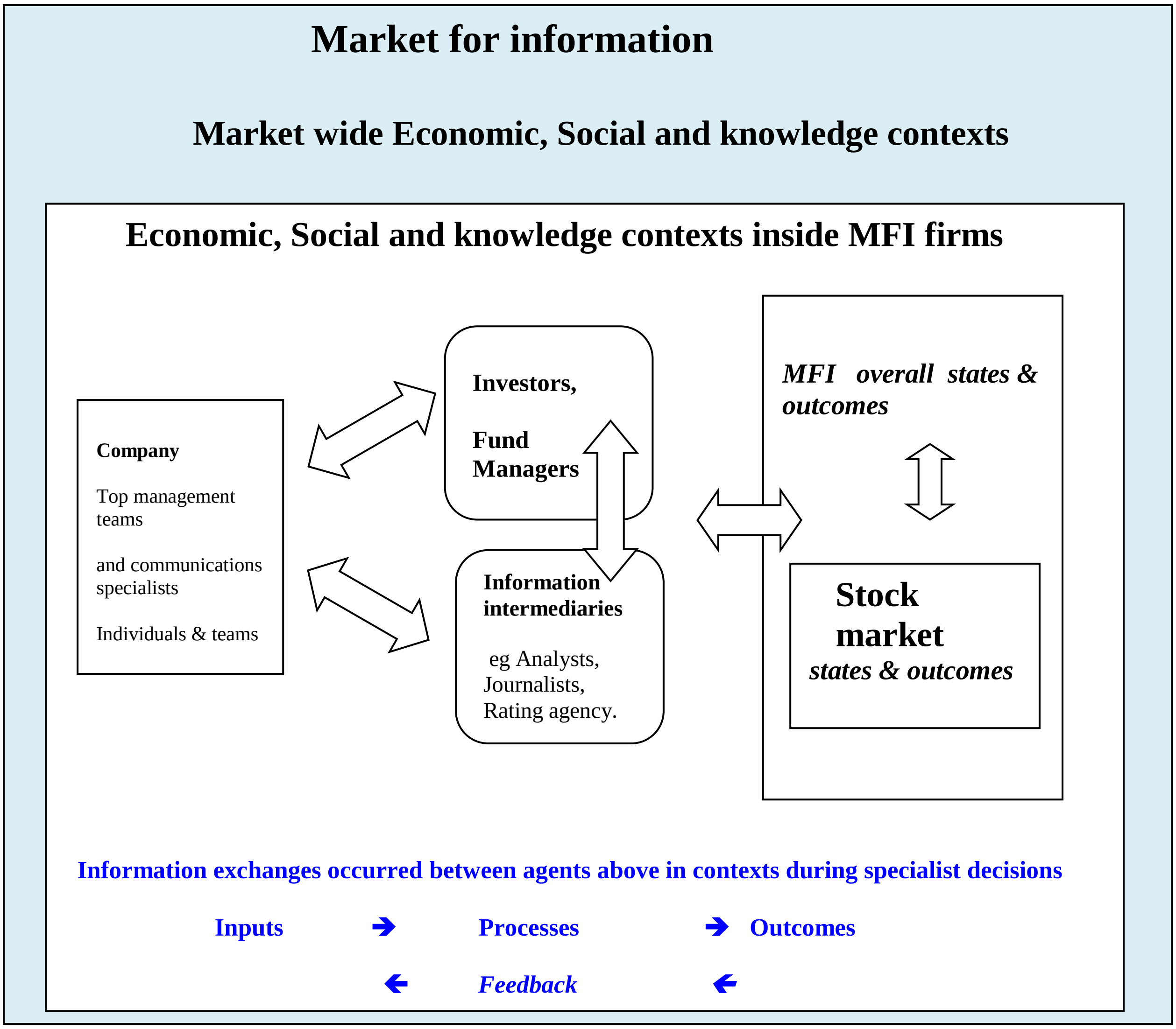
MFI processes and interactions

Field studies have shown that the MFI and agents were: intermediary mechanisms connecting information about real companies to the stock market; in support of corporate valuation, assurance, and accountability decisions (Barker 1998, Holland and Johanson 2003). MFI agent (information) actions within various interactive MFI contexts (existing MFI structures, knowledge and their prior states) led to various consequences and outcomes (Holland and Johanson, 2003) in: the MFI and stock market; ‘finance and investment’ society; and on occasion ‘civil society’. Economic processes in the form of: paid and unpaid information exchanges (private, public); and stock market reactions to public information and actions by MFIs agents; provided rapid feedback stimuli to agents during interactions. Time was an important dimension to the MFI process and interactions and was manifest as: intense time pressures; the need for very fast response to events; time to think and analyse; time to act in combined economic and social systems; ‘ordered’ time in terms of information related schedules; and accumulation of knowledge and problems over time.

MFI change and problems

Change and major problems are important empirical means to make visible the previously invisible and hence: understand interactions between MFI social structure, knowledge, actions and outcomes; and extend the narrative. In Section 6 the empirical narrative is developed using insights from longer term MFI change processes. Section 7 discusses major problems in MFI structure, knowledge and economic outcomes using events such as the ‘dot.com’ boom, the Enron case, Northern Rock, and the great financial crisis (GFC) of 2007-09. These events vividly highlighted negative aspects of mutual reciprocal interactions between social, knowledge and economic processes in the MFI. Agent problems with: knowledge; social structures; behaviour; created fertile conditions for these problematic events. They weakened and eventually destabilised economic processes for agents in the MFI by deepening negative interactions between social structure, knowledge and actions.

Figure 1 Empirical view - Contexts and processes for MFI agents - firms, teams, individuals and markets



Theoretical narrative about MFI structure, process and outcomes – in varying conditions

The paper develops a **'theoretical narrative'** to extend understanding of the MFI empirical narrative. Authors such as Bourdieu (1990) and Stones (2005) are used as parts of a theoretical frame to explain the empirical narrative and to connect a wider range of literature relevant to the empirical findings. They are used to interpret the role of knowledge and social forces in the MFI, their complex interactions, and their impact on actors such as company top management, analysts and FMs. Lave and Wenger (1991), Mackenzie (2006a,b), Meusberger (2009), Henningsson (2009), and Knorr Cetina et al (2002), are used to develop theoretical insights into specific MFI elements. All related literature is used to interpret ongoing MFI processes and structures, as well as change processes and major problems.

Figure 2 provides examples of key literature used to explain the empirical narrative and show how specific theory and literature is matched to the empirical constructs illustrated in Figure 1.

MFI structures and agents

The focus of theory analysis is on a subset of the MFI social network as tripartite links between company management, analysts and fund managers. They operated within tailored 'tiers', sub networks or 'status groups (Preda, 2005). These social networks normally operated within or near geographic territories such as the City of London, where the geographic space was a basis to configure and constrain the social networks within the centre (Glückler 2013). MFI agents and parent firms had the capability and incentives to use technology to extend their networks beyond centres. Time was an important dimension to the MFI. All MFI agents were situated in time-space contexts and social networks. These were the basis for agent interactions: face to face; and when physically absent to be connected via technology (Stones, 2005, P28).

Bourdieu's (1990) concepts of 'fields': where a field is a network, structure or set of relationships; are used to interpret MFI social contexts. Fields were where company managers, analysts, fund managers, and other agents acted and reproduced their behaviours, and competed for information advantage and power through human, relational and reputational 'capitals'. This was especially relevant in 'relationships', or sub-networks where frequent, high quality exchanges, and disclosures of information occur between MFI agents. Stones (2005) also focuses attention on social networks in the MFI. He provides means to discuss: elite and operational structures as 'position practices'; and to note the central role of hierarchy and power in the MFI. Stones (2005) concentrates thought on general and specific knowledge of MFI insiders. General knowledge was expressed in: culture, ideology and philosophy; as power and norms; and as the 'Intellectual climate' of the times. Specific knowledge of MFI insiders was made up as expert knowledge and finance theory.

MFI processes and interactions

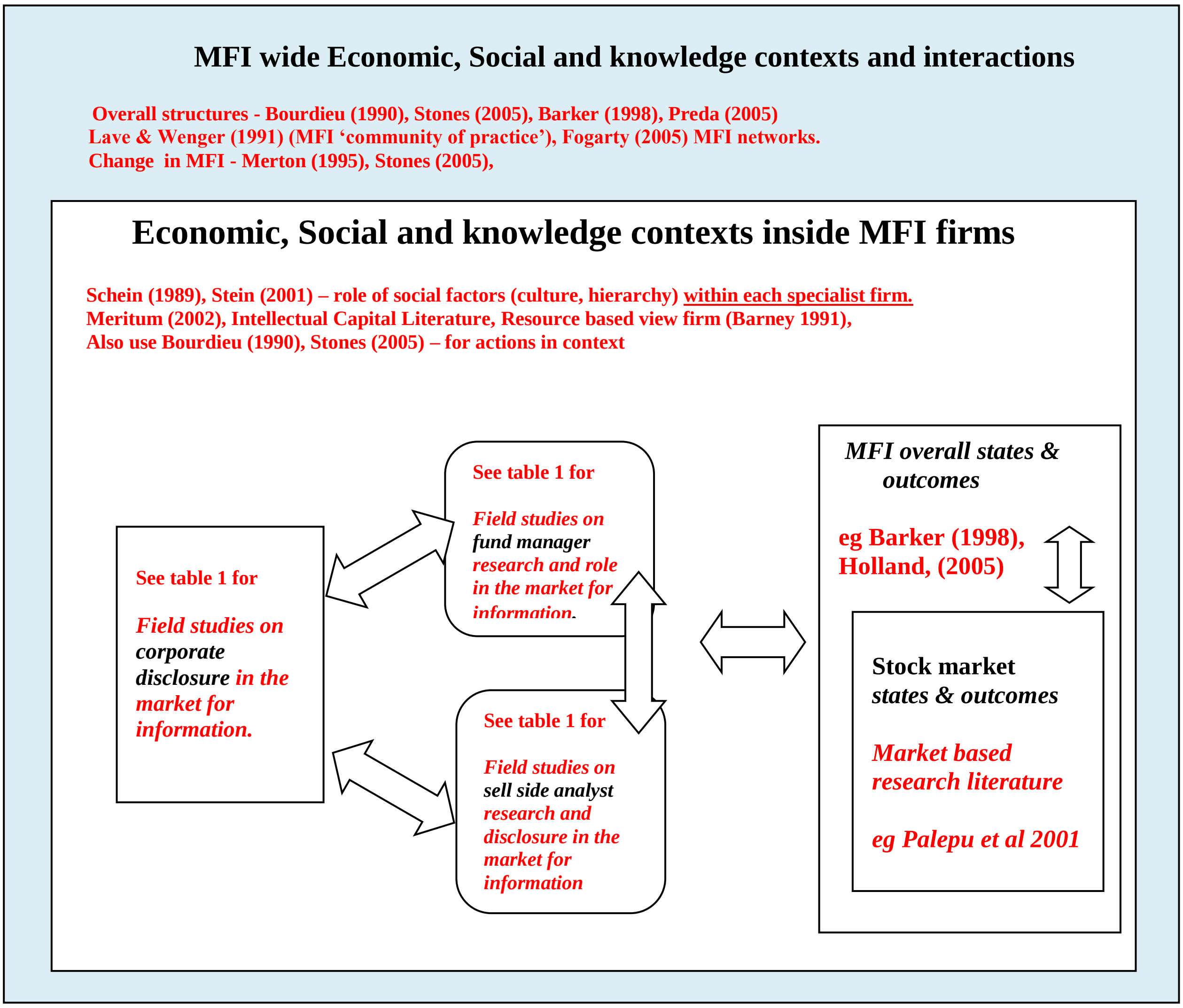
Stones (2005) also provides the basis to analyze interactions of external structure and knowledge on MFI agent information activities. He refers to active agency in which agents drew routinely or strategically, on their knowledge (internal structure) of external MFI structures to interpret events and guide action. These factors combined to frame MFI agent actions and outcomes in their specialist information related activities. The elements of structure, action and outcomes were always present together in mutual reciprocal interactions. MFI agents drew on their prior knowledge (general and specific) of external MFI structures, and their socialisation and position-practices within these structures, to frame their actions within the MFI structures. They drew on their taken-for-granted (general) knowledge of the 'ghost of networked others' (Thrift, 1996, p54) in the MFI, and their expert knowledge, to inform their actions. Actions and outcomes were not determined by external and internal structure alone. Individual agent capabilities and behavioural characteristics modified influences of external structures and knowledge on actions and outcomes. Individual characteristics enabled them to exercise some degree of personal choice in these contexts and played a central role in their information activities.

MFI change and problems

The theoretical frame above is used above to explore positive mutual reciprocal interactions between social structure, knowledge and agent actions, in periods of stability in MFI and finance system. Section

6 argues that Merton's 'financial innovation spiral' (1995) can be connected to Stones's (2005) quadripartite cycle to analyse change processes in the MFI. The extended theoretical frame is used in section 7 to explore negative mutual reciprocal interactions between social structure, knowledge and actions, during periods of change and failure in MFI and the finance system. These negative interactions weakened economic processes for agents in the MFI and led to failure. The above shows the relevance of the combined theoretical sources to the study of accounting and finance phenomena in the MFI.

Figure 2 Examples of key theoretical and literature sources used in each major part of empirical narrative



5. Analysis of empirical insights concerning the MFI – in periods of stability

Section 5 explores MFI structure, processes, agent actions and outcomes, during relatively stable periods (1990s) in the world of finance and MFI. The aims are to: expand a combined empirical and theoretical narrative; and explore how knowledge, social and behavioural factors play a role; in influencing company management, analyst, and FM actions in MFI economic processes.

5.1 External structure for agents - as MFI social networks and parent firm organisation

The field work demonstrated that the MFI was a market for economic exchanges between many information producing and using firms, as well as a market between individual agents and between teams (Barker, 1998). It was also a social context (as 'relations' and networks) which involved various meetings and interactions (expected, actual). These shaped subjectivity of individual agents and teams and 'disciplined' their behaviour to conform to wider MFI social norms (Roberts et al, 2006). Holland (1995, 2002) revealed how individual FMs exploited their power in relationship networks with other FMs and MFI agents to influence and govern company management 'behind the scenes' on real decisions, and on corporate disclosure behaviour. Company management also had a preference for private disclosure to their core FMs and analysts (Holland, 1997, 2005). They used public and private disclosure means to influence a core group of 'relationship' FMs and analysts in the hope they would influence a larger MFI social and economic network (Holland, 2004, 2005) and hence the stock market. Roberts et al (2006) noted private meetings between company management and FMs created conditions for processes of company executive subjection to FM power. Holland (1997, 2004, 2005, 2006a,b) illustrates how company executives internalised ideas of external social and power structures in the MFI. They adapted the company value creation story to match larger MFI stories of value creation (as during the 'dot.com' period, Holland, p74, 2004). They matched their disclosure behaviour and content to needs of participants in private MFI networks.

The above reveals the network and market structure of the MFI and how its knowledge context, information production and use processes provided the larger external organised context in which the purposeful agents operated. A key part of the external structure for Stones (2005) concerned 'position practices' or webs of interdependencies that an agent was situated in and which mediated external structure and agency. Company management specialising in financial communications, analysts, FMs, journalists, PR consultants and others were situated in a web of 'position practices' in parent firms and MFI. They took private action in and 'performed' these structures. Two major 'position practices' can be mapped out in the MFI field context: at elite levels (1st tier): and at operational levels (2nd tier).

Larger, higher value firms in commerce and finance were socially and economically connected to each other in 'elite social and economic clubs' or '**1st tiers**' or 'status groups' (Preda, 2005) in the MFI. The largest companies were full insiders in the elite world of the MFI, both providing and receiving much private information. The 'elite' networks were made up of individuals and teams such as the top management and Boards involved in directing the largest companies, Investment Banks, Fund Management firms, Rating agencies, Auditors, Financial media and PR consultants (Bellamy Foster, Holleman, 2010). They included MFI network 'gatekeepers' such as top rated analysts and fund managers in large well resourced financial firms. Elite 'position practices' also included roles and behaviour of senior members of regulators (eg UK Tri-partite including Bank of England, FSA, Treasury), and other senior politicians. They were normally 'arms length' and with the exception of specialist regulators, adopted a 'light touch' up until 2008. Top management and boards acted as transmitters of MFI firm philosophy, culture and objectives (Schein 1989). Accounting and finance academics (Whitley, 1986) and MFI based elite agents such as regulators (of financial systems) also promoted a shared intellectual climate (Turner, 2009). The MFI also included operational **(2nd tier)** sub-networks. These involved agents in the production and exchange of information, knowledge and financial resources, and these were much influenced by elite structures.

Bourdieu (1990) concept of 'fields' where a field is a network, structure or set of relationships, is important in this analysis. This idea refers to MFI social contexts where company managers, analysts, fund managers, and other agents act and reproduce their behaviours, and compete for information advantage and power through human, relational and reputational 'capitals'. This is especially the case in 'relationships' or sub-networks where frequent, high quality exchanges, and disclosures of information occur between MFI agents. For example, analyst 'relations': with companies (Fogarty et al. 2005); with fund manager clients (Holland 2006b); and with other information producers and users; were subsets of larger networks and formed a core part of the MFI field. As Healy and Palepu (2003, p. 21) comment *"Sell side analysts do not make their projections in isolation, but in a network of ongoing relationships".* Fogarty and Rogers (2005) argued that the social and institutional context surrounding financial analysts affected how they made their recommendations. These social contexts created supportive conditions for the exchange of both 'soft' information and 'hard' information within the analyst parent firm such as a bank (Stein, 2001) or mutual fund (Chen et al, 2004) and between MFI actors. Success in information transactions in turn enhanced trust and reproduction of networked relations.

5.2 Resources of Power and Knowledge,

Power is an essential resource when discussing MFI external structures. Bourdieu's ideas (1990) suggest that power in MFI firms and their agents is likely to arise from: their size and control over resources. These include: knowledge; information; financial capital; track record and reputation; 'relations'; and specialist information related skills. Combinations of resources (individual and parent firm) determine relative bargaining power of MFI agents over: supply and exchange of information and knowledge; their use of information and knowledge; and ability to impose sanctions. Variation in these factors led to a hierarchy of power in the MFI whereby MFI elites had power over operational agents, and both had power over small investors. In Stones (2005) terms, elites in the MFI used their connected position-practices, superior resources and power to resist the external social structures and forces they faced. They played an active role in constructing external structures for operational MFI agents in their local networks.

Power varied across MFI agents. Elites as board members and executives (or ‘dominant coalitions’, Cyert and March, 1963), exploited knowledge in and exercised hierarchical power over operational agents in firms and MFI networks. Company top management had ‘information supply’ power and ‘business model and earnings knowledge’ power over analysts. Their power was supplemented by PR and media consultants. Company management had advertising expenditure power over financial media. If they were banks they had financing power supply over financial media firms (HSBC case March 2015). Fund managers and their analysts had economic power over which sell side analysts to use. Fund managers had ‘governance’ and ‘ownership’ power over companies when demanding information. Sell side analysts had: ‘technical’ power arising from specialised knowledge of companies in sectors; and ‘parent’ power arising from the prestige of their parent investment bank.

The relative bargaining power of operational MFI agents in economic and social networks was based on agent knowledge and information: of economic processes; social networks; and power asymmetries. This played a role in private and public exchange of information. Active agency in information production depended on agent understanding of power and positions of connected MFI agents. For example, if company management and FMs were discussing a special financial variables and KPIs for intangible value drivers, sell side analysts knew they would be expected to show special expertise in these areas. Small investors were outsiders to this private MFI social system and had no bargaining power unless they could mobilise regulators or politicians. UK price sensitive information legislation in 1993-94 (Holland, 1996) and US ‘Fair disclosure’ (SEC, 2000) are examples of regulation boosting public disclosure and reducing private disclosure (Holland, 2005).

Knowledge was also a critical resource when discussing MFI structures and agent actions. Field studies also showed that the MFI was a ‘community of practice’ (Lave and Wenger 1991) and a ‘market for knowledge’ (Meusberger, 2009) whereby knowledge of companies, of economies, of markets and of market agents, was created, used, exchanged and shared. Knowledge creation and capabilities were at the heart of information production, analysis and reporting/disclosure in the MFI and security markets (Holland et al, 2012). MFI agent knowledge was dominated by expert knowledge (Holland, 2006; Abhayawansa et al (2015); Holland, 2016).This included understanding interactions of intangibles and tangibles in company business models and earnings generation. It also included agent understanding of their own intermediation models (information, financial). Over time expert knowledge was formed in MFI agents and diffused in MFI social and economic contexts. Some finance theory was used but this was a low priority relative to own expert knowledge. For example finance theory use in fund management was limited because of problems of usefulness (Coleman, 2014, 2015; Holland, 2014).

The above indicates suggest that individual MFI operational agents (such as analysts and fund managers) internalised practical ways of working based on their previous learning experiences in the MFI field. They internalised their understanding of external structures and acted within their ‘habitus’ of socialised norms or tendencies (Bordieu, 1977, 1990). Habitus refers to states of readiness (dispositions), habits, ways of doing, thinking and perceiving the world that MFI agents acquired as individuals or teams as they experience their working lives in the MFI. The existence of agent 'habitus' in 'communities of practice' meant MFI agents were predisposed to structure relationships, networks, and states of trust and confidence. This in turn created enabling conditions for; financial communications; other information flows; decisions; learning and knowledge creation; between MFI agents.

Stones (2005) argued that agent's knowledge of external structures included both general and specific knowledge. General knowledge for MFI agents included knowledge and world views about the MFI world, its social structures and culture, and the roles of agents within it. It incorporated relatively unquestioned, taken for granted ideas about the nature and role of financial capitalism, of money, wealth, position and power in the world economy. It involved normative commitments to the idea that 'efficient' financial markets and financial institutions were the best way to allocate risk capital. General knowledge included broad acceptance of: key financial information technologies such as the internet, data bases, and accounting; market exchange mechanisms; financial institutions; financial centres; and their joint roles in the narrative of finance capitalism. It included patterns of behaviour and habits of speech expected in the City of London and in virtual locations such equity trading market mechanisms. It included: shared understandings about a culture of secrecy and privacy in the MFI (Holland, 2002); a tendency to think primarily within this finance social 'bubble'; and sense of entitlement to high pay (Jones, 2014). This general understanding was communicated by top management to 'operational' agents as 'philosophy', culture and ideology. It was transferred to operational agents through: 'learning on the job'; training; and absorption of MFI and firm culture (Holland et al, 2012). This changed operational agent's 'habitus' (Bourdieu, 1990) in line with firm culture and wider MFI social norms.

Knowledge also included specific knowledge as established finance theory and expert knowledge. Established finance theory was developed by academics and acquired by agents during education. General knowledge and finance theory overlapped and shaped each other in the social 'bubble' of 'finance and investment society'. Finance theory was used as a conceptual means to explain and justify financial markets and financial firms and had a major influence on behaviours. This has been interpreted as performativity by MacKenzie and Millo, (2003) and MacKenzie, (2006a,b). Before the GFC, general knowledge (Stones, 2005) and finance theory: created agents predispositions toward their MFI world; and contributed to and shaped the intellectual climate; shared between finance practitioners, academics and politicians (Whitely 1986; Holland, 2010; King, 2014). Specific knowledge also included expert knowledge developed by MFI agents over time. This corresponded to ideas of 'intellectual capital' (Meritum, 2002) including knowledge of: social and economic networks; company business models in real markets (IIRC, 2011); financial markets; and of their relationship to numbers. It included knowledge of calculative devices and numbers (Vollmer et al 2009) such as company accounting, cash flow, valuation (by agents and markets), and risk. MFI agents also had to understand: the rules and games played in social networks (Stones, 2005); how other external MFI agents understood the world of finance;

what their expectations of behaviour were; what power they had; and what sanctions existed. They had to understand how understandings and actions of others in the MFI affected stock prices and how they could exploit this. Specific knowledge was central to agents' trust and confidence in others, their ultimate decisions and the agent power to act in networks. In practice both general and specific knowledge functioned together as 'knowledge for guiding action'. They were not separable and the line between them could also change with learning in their professional 'community of practice' (Lave and Wenger 1991) in the MFI.

5.3. Active agency and actions in context

The field studies showed how MFI agents produced their own specialised judgements (information disclosed, valuation, buy/sell recommendation, audit opinion, rating etc) about companies and related economic events and market changes, and added their own MFI based reputation to their judgements to provide assurance to other agents. Power's (2009) comment about financial auditing (and hence other agents) operating as 'part of a wider network of mutual assurance and co-dependency', indicates that the MFI was a key part of a 'web of assurance that contributed to financial stability'.

The field studies also revealed how MFI agents adopted similar decision logics and behavioural norms in their common settings (Holland 2005, 2006a,b; Holland et al 2014). Agents such as company management or analysts publicly disclosed information structured according to reporting and stock exchange requirements. Agent private disclosure was based on MFI norms based on shared views of corporate value creation structures and narrative structure (Holland, 2009). This was critical in making 'soft' information about "invisible" intangibles in company value creation visible to other MFI actors (Abhayawansa et al, 2015). These subjective sources of information were used in numeric estimation, valuation, and decisions. However, the subjective information created common behavioural problems of bias and optimism for agents such as analysts and company managers (Fogarty and Rogers (2005).

Actions by MFI agents were also influenced by their own and parent firm states in 'finance and investment society' such as reputation, and by perceived social legitimacy of MFI agents. Thus combined knowledge and social factors influenced agent economic activity in a complex set of dynamic and reciprocal interactions. The resulting economic actions and processes by agents in the MFI and stock markets involved production and exchange of information for valuation reasons by companies, analysts, journalists, FMs and other MFI agents (Barker, 1998). These in turn affected security market prices (Holland, 2002, 2004, 2005, 2006, 2009).

Field studies show how external social factors and MFI agent knowledge of this world (Stones, 2005) provided the relatively stable organising order central to action. Holland and Johanson (p482, 2003) noted;

'..companies, analysts,..FMs make common (unquestioned) use of larger market accepted constructs and a common financial language. Confidence in these constructs is buttressed by ….trust and continuing exchanges in a trio of information market relationships involving company-FM relations, company–sell side analysts relations, and FM-analyst relations'

Stable MFI contexts or priors such as: established knowledge; durable reputations in networks; and long-standing company value creation narratives created opportunities for speedy, high quality information exchanges and ritualised behaviours to take place between MFI agents such as company management, analysts and fund managers (Holland, 2002, 2003, 2005, Holland and Johanson, 2003). They created conditions of trust and confidence for: exchange of subjective impressionistic information; and for creating confidence in the exchange of estimates of numerical information. In contrast to formal reporting they allowed impressionistic and subjective ('soft') information to be created and exchanged (Holland et al 2012), and for private information (in excess of public information) to be exchanged by MFI agents (Holland, 2005). Complexity of information about company intangibles was a problem for MFI agents. Henningsson et al (2015) noted that FMs tended to trust the stable context of company information and strove to trust top management. Nevertheless, FMs oscillated between exhibiting trust and distrust when reducing the complexity of information on intangible resources and sustainability.

An important part of the 'soft' information set was the narrative about company value creation. MFI agents such as company executive, analysts and journalists all had their own version of this narrative. Maise (2014) showed how the combination of company disclosures, analyst reports, and journalist 'news' and stories all contributed to a social consensus about the company 'story' in the MFI and financial markets. Each MFI agent sought to influence and frame the dominant narrative and consensus sense making in MFI social structures and stock market. However such 'stability' could conceal mythmaking (Holland, 2005).

5.4. Outcomes

There were a range of economic and social outcomes of agent activity in MFI social, knowledge and economic contexts. For example, MFI agent disclosure of new company information ('news', advice provided, forecasts, valuations, ratings, assurance provided) and subsequent actions created expectations about companies for economic actors, and influenced and changed the behaviour of actors (eg FM actions). Holland (2004, 2006) notes how the information activities of MFI agents within the MFI network altered information, knowledge, and social states in individual agents, parent firms, and MFI. These in turn played a role in changes i*n price, volume, volatility, and liquidity* in the stock market. Economic outcomes in the MFI also included economic benefits for agents. Company management sought positive reactions from shareholders, desirable stock price outcomes, and executive bonuses related to stock price performance. FMs sought: value relevant information, investment opportunities, and improved performance relative to portfolio benchmarks; and fees and bonuses for managing funds. Analysts sought value relevant information, new research business opportunities, trading commissions for parent research firms, and bonuses for analysts. At the wider market level MFI market mechanisms and networks were means to exchange information, knowledge, and confidence between many market participants *and for this to form into equivalent aggregate market and social network states*. MFI states included states of established knowledge, consensus and reputation concerning companies and agents (Holland, 2004, 2005, 2006). These contributed to wider market states in the MFI (information set, confidence etc) and stock market (prices, volatility, liquidity and volume trades). As a result, individually and collectively, many connected MFI agents, on an ongoing basis, created information and assurance, and supported accountability.

6. Change in the MFI

Section 4 discusses how change occurs in the MFI, both positive and negative, and how it can be understood and potentially influenced. Change makes visible interactions between MFI social structure, knowledge, actions and outcomes; as well as how major problems emerged. Three connected examples of MFI change for sell side analysts are outlined.

The first example notes how analyst reputation was created by learning by many MFI actors: during many information exchanges between them and analysts; and analyst success and failure. Analyst's individual qualities, capabilities, knowledge, and track record, were over time, recognised by other MFI participants as reputation (Holland, 2005, Holland et al 2012) or prestigious cultural capital (Bordieu, 1990). Improved analyst's reputation enhanced relations with companies and FMs and reduced barriers to information exchanges (Holland, 2005, 2006). Before the GFC this led to relatively stable ranking structures for analysts across the MFI, whereby individual analyst position changed but not the social structure. Hence there were strong economic incentives to invest in reputation and relations (Fogarty et al. 2005) in MFI networks (Holland, 2005, 2006). The second example notes how changes in technology changed MFI social structures. This occurred when previously 'face to face' interactions and information services, were replaced by technology. As some information services became commodified and automated by firms such as Bloombergs and Thomson Financial (Haig, 2014), sell side analysts made their information products more research intensive to secure close relations with company management and FMs. A third example post GFC, concerns new 'boutique' sell side analysts (Haig, 2014) providing knowledge intensive insights into company business models. They emerged due to technology change and failure of sell side analysts during 'dot.com', Enron and GFC events. These eroded sell side analysts competitive advantages based on 'relations' with companies and fund managers. Competition in the form of automated 'analyst' reports, 'forensic' financial reporting services, and 'boutique' analysts (Haig, 2014) has shaken up their world. New competitors exploited their unique capabilities, network links, economic change processes, and problems to create changes in MFI structures.

The change examples indicate that longer term economic change processes in the MFI involved an information variant of Merton's 'financial innovation spiral' (1995) whereby : the forms of information intermediation; their information products; information users and their needs; and the wider market for information; evolved together over time. Broader changes included: growth of knowledge based intangibles in company business models; technology change; globalisation; 'securitisation'; and 'financialisation' Epstein (2001). These have led to change in: corporate financial communication; analyst's roles; and FM investing behaviour. Ongoing improvements in information and communication technology and a decline in transactions costs for information exchanges have intensified competition as information intermediaries sought to satisfy users information needs. The history of innovative financial information products indicate a pattern whereby information products initially offered privately by information intermediaries, become standardised, automated, commodified *(eg analysis of company financial statements by analysts)* and were disclosed publicly. This created new incentives for information intermediaries to innovate with new technology, new products and other agents to satisfy changing user information needs and to maintain social connections.

In terms of **knowledge change,** sell side analyst cases indicated that ongoing interactions and exchanges (social and economic) in the MFI led to construction of agent expert knowledge or intellectual capital (Holland, et al 2012). This was new specific knowledge (Stones, 2005) about decisions and situations for agents which changed the internal (knowledge) structures (Stones, 2005) of many MFI agents in their communities of practice (Lave and Wenger, 1991). These knowledge change processes were possible because MFI agents normally operated within concentrated social networks in geographic territories such as the City of London (Glückler, 2013).

In terms of **social change** the examples indicate that social structures in the MFI were changed by agent knowledge changes and by technology changes especially in communities of practice (Lave and Wenger, 1991). MFI social structure, as social networks and MFI agent reputations, was influenced over time by these historical change factors (Stones, 2005). The examples of change show how MFI agents (such as analysts) and their parent firms (such as investment banks), have in Bordieu's (1990) terms, changed their 'habitus', field or domain, cultural capital and tacit knowledge, in the MFI social structure.

The analysis above reveals that a MFI 'change spiral' existed and involved mutual and reciprocal interactions between economic, knowledge and social change processes. This suggests that Merton's financial innovation spiral (1995) can be linked to Stones's (2005) structuration views. Both are iterative, reflective processes driven by purposeful agent actions in a combined economic, social and knowledge context. Each has a varying focus on elements of intimately connected economic, social and knowledge processes in the same empirical phenomena. Such developments in MFI theoretical understanding are required for critical analysis of MFI functioning, change, successes and failures.

7. Empirical insights into problems in the MFI

Section 7 discusses how MFI **problems** formed an important part of the MFI empirical narrative. The history of problems in the MFI made visible: social and economic networks; and interactions between structure, knowledge, and actions. They revealed how negative interactions can arise and contribute to MFI failures. Problems are divided into ongoing behavioral problems and major problems.

Ongoing behavioural problems in the MFI

Ongoing problems involved 'games' playing by agents such as company management in 'earnings management smoothing' and business model 'story management'. These created a base of accepted norms from which more serious problems have emerged. Earnings management by company management is 'normal' behaviour in the MFI and can be seen as a long standing problem. Graham et al's (2005) field research revealed that US company management used real economic change to manage their reported earnings figures. They had a strong preference for a smooth earnings path, leading to lower perceptions of firm risk. Walker (2013, p451) argued that this showed that 'academic researchers needed to take much more seriously the possibility that firms may be regularly making value-destroying real economic choices in order to meet earnings benchmarks'. This paper argues that company management had strong MFI based incentives to manage all major information sources about company value creation. Company management understood that analysts and fund managers sought information on how changes in intangibles and tangibles in the company business model were connected to expected incremental changes in cash flow statements, and to profit and loss and balance sheet items. Value relevant information was expected to arise from the analysis of 'soft' and 'hard' information sources. Holland (2005, 2009) reported how company management sought to control the narrative about the company business model. This 'story management' was combined with 'income smoothing' as a joint means to lower perceptions of firm risk in the MFI. On occasion, 'successful' managers constructed untested value creation myths about companies (Howcroft, 2001; Holland, 2005) with this leading to serious problems.

This reveals the wider 'information game' that MFI agents such as management were involved in with analysts and FMs (Holland, 2005, 2006). The 'rules of the game' were well understood by MFI agents and formed part of their 'habitus' (Bordieu, 1990). Agent 'habitus' influenced their cognitive states by focussing on the familiar, by reducing choices in information disclosure and search, and by encouraging 'acceptable' information gaming by agents. Walker (2013) argued more 'Research on how the earnings game is played' is required. This paper argues that more research is required on, the broader information 'game', and how the social, knowledge and economic setting in the MFI, allowed this 'game' to go on unchecked and for major problems to emerge.

Major problems and failure in the MFI before the GFC

On occasion, the wider 'information game' between MFI agents such as management, analysts and FMs, has gone badly wrong leading to major failures in the supply and demand of information. Problems with knowledge and social factors, combined with 'gaming' behaviour, and played a role in weakening, impeding and eventually destabilising economic processes in the MFI, agents and parent firms. Many extreme examples of bias and manipulation of company reports and 'intangibles' disclosure arose during: "dot.com" problems of 1997-2000 (Howcroft, 2001; Holland 2002, 2003; Holland and Johanson, 2003; Palepu et al 2008); Enron in 2002 (Healy et al 2003); Northern Rock in 2007 (Fallon, 2015); and 2008-2009 GFC (Turner, 2009; Levin-Coburn report 2011; Holland 2010).

The problems arose, in part, from changing conditions in MFI firms before the GFC. Stein (2002), Chen et al (2004), and Holland et al (2014) illustrated the problems of organisational structure and control in MFI firms such as fund managers, rating agencies and investment banks, especially the largest and most complex organisations. They revealed problems with: internal risk taking culture, strategy, incentives, and control mechanisms before 2007; including slow learning by top management and front line, relative to faster MFI change (Revans, 1998); leading to out-of-date and inappropriate business models of MFI firms. These contributed to operational agents distorting information and assurance produced in MFI.

The problems also arose from existing social and knowledge conditions in the MFI and changes in corporate economic transformation processes. The private nature of the MFI elite and operational structures and their high use of 'soft' and subjectively based information made small investors in the MFI vulnerable to the construction of biased, faulty and deceitful public narratives about company value creation processes as sources of value. The growth of the 'knowledge economy' also increased corporate control and power over information production about company business models (Holland, 2005, 2009).

Howcroft (2001) discussed how mythology was an 'important vehicle for establishing a number of dubious justifications for participating in the dot.com share market'. This was not a paradigm shift but 'reflects a speculative bubble, one that has been created by numerous investment analysts and bankers who are keen to build upon rampant speculation about high-technology stocks'. Valliere et al (2004) argued that venture capital investors developed 'groupthink' in a 'psychic prison' (Morgan, 1986) during 'dot.com' period. The 'psychic prison' arose in inward looking and closed social networks (in firms and the MFI) which constrained modes of thinking and trapped investors in webs and myths of their own or others creation. This 'contributed to the bypassing of generally accepted practices by investors who believed they were behaving rationally' when investing in much hyped 'dot.com' business models. The Enron case (Healy et al 2003) revealed the opportunities for corporate hubris and for exercise of extreme opportunism, bias and deceit, via subjectively based disclosure vehicles such as narrative. It illustrated failures of analysts, fund managers, auditors and financial media to question this behaviour. Issues of inadequate 'expert' knowledge by MFI agents of new company business models, was a critical factor in their failure.

Failures in the MFI during the GFC

A spectacular example of failure arose before the banking crisis of 2007-2009 when MFI agents failed to understand new bank business models (Holland, 2010). During 2000 to 2006, bank sell side analysts, fund managers and financial media, found it difficult to explore bank business models with management (Chen et al 2014). Despite this lack of understanding FMs and bank analysts demanded ever higher returns from banks and widespread adoption of riskier business models. High exposure to financial risk had been accepted by MFI agents, and by regulators and financial markets within a shared intellectual climate based on established knowledge (Turner, 2009; King, 2014). Bank top management were not prepared (or able) to discuss radical changes in their business models. Fund managers and their buy side analysts showed little interest in the issues (Holland, 2010, Chen et al 2014) as they exploited rapidly growing earnings and security prices for banks. Northern Rock's failure in September 2007, Lehman's failure in September 2008 and the subsequent GFC, reflected these problems. The combination of low awareness of issues, and high economic incentives was similar to behaviour in the MFI in 'dot.com' boom (Palepu et al 2008; Holland, 2002) and the Enron case (Healy and Palepu, 2003).

These problems were in part, attributable to: concentrations of elite power and influence in private social networks in the MFI; and to economic incentives in the world of finance and MFI. In the periods just before the: 'dot.com boom; Enron; Northern Rock failure; and the great financial crisis (GFC); both elite and operational MFI agents gave the impression of acting on well understood and tested knowledge about: company business models and real markets; MFI social structures; financial markets; and MFI firms. This constituted a form of collective 'impression management' (Abhayawansa et al, 2015). Elite MFI agents, operating in large banks, other large financial firms, regulators, and 'quality' media used 'established knowledge' (expert knowledge and theory of finance) in a conservative and dogmatic fashion in controlled social structures (networks, firms) to create a false impression of 'correct' knowledge use (Turner, 2009; King, 2014). This was an effective way for elite insiders to influence collective levels of trust, confidence and meaning structures amongst the public, other investors, and politicians. However, they created risk exposures that could not be 'managed' through principles based on expert knowledge, where much of upside benefits would accrue to them and where downside losses would be experienced by others. The latter included: quasi insiders such as Northern Rock; and outsiders including the investing and saving public.

Regulatory failure in the MFI during the GFC

The above illustrates how negative social and knowledge factors, and 'gaming' behaviour, played a role in weakening, impeding and eventually destabilising economic processes for MFI, agents and parent firms. The same class of problems arose across these market events (Dot.com, Enron, Northern Rock, GFC) and revealed the connected and systematic nature of problems faced by many specialist MFI firms. However the Northern Rock failure (in September 2007) and the support given to large banks during the GFC (September 2008 onwards) reveal how social and knowledge factors contributed to differences in the way these processes occur during crises. Northern Rock as a small 3rd tier bank (quasi insider) had few advantages in terms of social position, power, and knowledge in the MFI and associated banking markets, compared to large, insider, and influential 1st tier banks. Northern Rock was not 'too big to fail' and its top management and board were not full insiders or members of the elite. A combination of: capital flight to 1st tier banks in interbank deposit market; lukewarm Bank of England and government support; major declines in trust and confidence in MFI agents and outsiders; created conditions for

problems in smaller banks. In the Northern Rock case this combined with major public questions and debate about the bank's heavy reliance on inter-bank funding. The market factors and bank factors, combined in precipitating the Northern Rock bank run (Fallon 2015). In contrast, 1st tier banks such as HBOS and RBS secured government and regulator support in 2008. It appeared that issues of: systemic risk and elite influence; from and about 1st tier banks viewed as 'too big to fail'; secured full government and regulator financial resources, support, and bank survival. Questions of position, power, and access to information and funds, differed between insider and quasi insider cases. In both large and smaller banks cases many factors were similar but did not produce the same responses in regulators and the MFI.
MFI agent and regulator knowledge problems with: business models, finance theory (as ideology), interpreting behaviour of others (regulators, politicians, other banks etc); and social problems of collective trust and confidence; were similar. These impeded the role of analysts, media, rating agencies, regulators, politicians in similar ways, but social structure and power issues mediated their effects.

The crisis in specialist banking and finance sectors also provided insights into stability of structure and function of the MFI. It showed how a special group of elite agents took control of MFI functions and banking markets. Elite agents from regulation and government became dominant in MFI and banking markets during bank and financial crises. When banks and banking markets failed, and when parts of MFI dealing with large banks failed, these elite agents became especially important to markets for: information creation and use; secrecy; provision of funds; and exercise of power. Government power and financial resources became central: as top management power in large banks waned; but banks becoming very significant due to their 'too big to fail status'. Secrecy was enforced by powerful agents as they sought 'behind scenes' solutions to bank problems. They formally disclosed and informally leaked information about solutions, to MFI, banking markets, media and public. They did this on a selective basis to frame external interpretations, avoid panics and to 'jolt' markets and banks back into life. The UK government plan was to *'reassure markets with a decisive, clear and completed intervention in one stroke'* (p298, Fallon, 2015) by boosting bank capital in all major UK banks. 'Spin doctors' from politics also entered the process and pursued political as much as economic aims. They 'leaked' to the media, creating momentum to stories and forcing bankers to accept government plans. The MFI was not fully moribund. Some elite parts of the media especially Robert Peston (from BBC) penetrated this 'wall of secrecy' through connections with regulators, treasury officials, politicians and 'spin doctors' at cabinet level.

The above history of major problems and failures in the MFI has made visible many social and economic networks involving elite and operational agents. They have provided new data on mutual, reciprocal interactions between structure, knowledge, economic and social actions, and outcomes in the MFI and how negative interactions can occur in each of these elements. This has provided empirical support for empirical and theoretical narratives discussed in sections 5 and 6 and created opportunities for theoretical analysis of problems in section 8.

8. Theoretical analysis of major problems and failures

Section 8 uses the theoretical narrative developed in sections 5 and 6 to analyse MFI problems and failures outlined in section 7. The use of theoretical sources to interpret empirical insights demonstrates the importance of developing a new theory framework to stimulate the debate and open up the private world of the MFI. Theoretical sources are used to develop the analysis of four critical factors in MFI external structure identified previously concerning: elite agents; a culture of secrecy; concentration of resources; and control over the latter by elites. Theoretical sources are also used to further explore how structural problems factors exacerbated existing knowledge problems for agents. Problems arose with specific knowledge (Stones, 2005); with the promotion of 'pure' finance theory; the ignoring of economic history; and complacency in expert knowledge and learning (Holland, 2010). Problems also arose with the public narrative on how the finance system and its MFI component worked and provided benefits. The analysis highlights how problematic conditions in MFI external social structures and agent knowledge: as well as ongoing behavioural problems; created fertile conditions for problematic events such as, the 'dot.com' boom, Enron case, Northern Rock failure, and GFC; leading to adverse outcomes for less informed and less powerful investors.

8.1 Problems of external structure – elites, secrecy, concentration, power

Several authors have identified **elites as a critical factor in MFI social networks** or external structure. Scott (1993) refers to this environment of elite financial relations between the fund managers, bankers and executives in the UK (large) corporate sector as a "constellation of interests" in UK finance capital'. Financial elites have grown since the 1990s (Beaverstock et al,2013; Hutton, 2015). The shift in elite ownership of financial assets also reflects sharp increases in the share of income of the top 0.1 and 1.0 % in the US and UK relative to Germany and France over the period since 1970 (Atkinson and Morelli, (2014). Kay (2015. P54) attributes this to the 'financialisation' process, the dominant role of the US and UK financial markets and large banks in this process, and to increasing incomes in the finance sector. This led to **concentration of power and resources in** key clusters in financial system (Economist, August 18th 2012; FT Jan 15th 2015) and in MFI networks. Large banks had the capacity to exert high control over wholesale banking markets and MFI through 'relations' and 'tiers' or 'status groups' (Preda, 2005). Large investment banks incorporated MFI functions such as analyst's research functions and fund management functions, and they transacted in securities which relied on the MFI. High concentration also existed for the largest auditing firms, rating agencies, financial media firms and asset management firms (Haldane, 2014). These MFI firms and their agents transacted with each other, they operated in the same world financial centres and close social contacts occurred between their top management elites and between them and regulators.

A major external structure issue was that MFI structures, knowledge and behaviour were invisible to many 'outsiders'. Elite and operational agents in MFI shared a strong culture of secrecy and privacy for information and knowledge. Secrecy was a primary source of power advantages and wealth creation. This reflected norms of the world of finance which Kay (2015) argued has grown separate from ordinary people to become an industry that talks to itself while handling their capital. Elite and operational agents constructed private networks that were invisible to small investors and excluded public discussion of social power, and knowledge advantages of MFI elites. These conditions excluded the wider public from benefits of private information and exchange, and ignored how they experienced disadvantages.

Elite agents also **constructed the public narrative** for operational agents and outsiders concerning benefits of the system. Elite agents used their social network positions, roles and power relative to operational agents and the wider public to promote arguments from 'general knowledge' of finance capitalism and from finance theory and used these to justify these conditions (Stones, 2005). MFI insiders argued that outsiders gained benefits of: high quality public information; 'free rider' or 'trickle down' benefits of efficient markets; rational risky asset pricing; and professional MFI agents. They argued that MFI agents disclosed much privately produced information through intermediaries such as the media. However, media agents faced major conflicts of interest in their roles arising from: important social and economic connections to insiders. This could bias their independent reporting role for the public.

Elites, resources and exercise of power

The presence of elites and their power over MFI were not necessarily problems if there was high transparency of elite actions and effective accountability. Concentrations of size and power were not seen as a problem by elite agents if they involved 'quality' and size 'tiers' between the largest financial and information firms, and where there was plenty of competition and choice within the 'tier' (Lewis and Davies 1987). Elite agents used finance theory: to argue that size and elite tiers were efficient means to deal with problems of; information asymmetry, adverse selection and moral hazard; through sophisticated buyer and seller interactions in wholesale markets (caveat emptor) for financial transactions and information (Lewis and Davies 1987). They were a problem, if small, private, elites from large firms (in restricted networks) controlled ideas and manipulated ideas and information for their own benefit. This created a mythical public narrative and a 'psychic prison' (Morgan, 1986) for smaller firms and individuals. The 'dot.com' episode, Enron, and GFC provide evidence that elites in finance used social networks, knowledge, knowledge creation and use for their own personal and elite group benefit (Sikka, 2009). Close contact of elites with regulators created conditions for conglomerate financial firms to successfully lobby (in private) for 'light touch' regulation in banking and financial markets, and the MFI, before the GFC. During the 'dot.com' boom 1997-2000 (Holland, 2002), the Enron case (Healy and Palepu, 2003), and the GFC (Holland, 2010), elite and operational MFI agents exploited their social positions, roles and power in MFI networks to control and influence information relative to 'outsiders'. This included information arising from: companies issuing securities; analyst research; rating agencies; financial media; and information provided to FMs. The quality of information from the supply side was distorted as it flowed to the demand side, leading to failures in conventional governance and accountability systems. In Stones (2005) terms those with more resources could dictate social structure, a culture of secrecy, behaviour, and economic terms to others. Paraphrasing Sikka (2009) there is nothing neutral about MFI structures, processes and outcomes. MFI elements are the residue of negotiations and bargaining amongst economic elites and reflect their economic interests. Those who finance and control the policymaking structures are always in a position to shape the outcomes for their benefit.

8.2 Knowledge problems

Stones (2005) concepts of general and specific knowledge provide a conceptual means to explore how different dimensions to knowledge can play differing roles in major problems in the world of finance and the MFI. In the pre GFC period from 2000 to 2007 general knowledge and finance theory were used as a dominant public means of explanation of the MFI function and of the banking and finance system (Turner, 2009). This involved a 'silent unsaid agreement' amongst MFI elite agents and operational agents against the interests of the wider investing public. Elite MFI agents such as top management transmitted general knowledge of finance and finance theory ideas to operational agents via the MFI firm's hierarchy and MFI networks. This was manifest as the shared 'intellectual climate' (Turner, 2009; King, 2014; Carney, 2015) or general (often unconscious) knowledge (Stones, 2005) of MFI agents. It was promoted by powerful networked agents in finance-investment society such as senior management in large investment banks and 'their' submissive credit rating agencies. They included 'information regulators' such as accounting and auditing bodies, stock exchange and security market regulars, and bank and financial institution regulators. The regulators were effectively silenced and disempowered by their acceptance of the shared intellectual climate.

The role of the MFI elite in defining 'established knowledge' and the 'shared intellectual climate ' in finance meant that they also framed the way operational MFI staff viewed 'information' and hence the content of information exchanged in the MFI. A similar process was at work in promoting ideas of new business models before the 'dot.com' boom, the Enron case, and the GFC. Given that this 'knowledge' was flawed before the events, then so was the information**.** These factors played a role in distorting MFI operational agent's internal structure or expert knowledge and created a wider 'psychic' prison (Morgan, 1986). They created social blindness (Henningsson, 2009) and overconfidence with respect to specific knowledge (as finance theory and expert knowledge). They elevated conventional finance theory to the level of an ideology when seeking to 'explain' how MFI and associated financial markets worked (Turner, 2009; King, 2014, Carney, 2015).

In addition, MFI agents did not invest in learning to ensure that expert knowledge reflected the rapid rate of change and new character of financial institutions, markets and associated information services. Operational network agents were not incentivised by top management in MFI firms to test conventional theory ideas or to develop new expert knowledge based on the new circumstances. They believed (or did not question) theoretical ideas as the idealised explanation for their roles and they ignored problems with 'out-of-date' expert knowledge (Turner, 2009; Carney, 2015). This reflected their wealth incentives or as Sinclair (1994) noted: *"It is difficult to get a man to understand something when his salary depends on his not understanding it".*

Galbraith (1954, p28) argued that knowledge of the great crash of 1929 was the best safeguard against its recurrence. Prior knowledge of economic history could have sensitised MFI agents and regulators to the idea that some low probability events in banking and financial markets occur with catastrophic financial consequences. This knowledge would have questioned the development of new types of bank models, financial products and markets (Holland, 2010) and reduced the chances of bank failure during the GFC of 2007-09. However, the use of such knowledge was not in the economic interests of elites in the financial system as it distracted attention from growth and wealth maximising aims for their financial firms. From their perspective it made more sense to promote the 'good news' of established finance theory as efficient markets, informed asset pricing, and the risk diversification on bank balance sheets and wholesale financial markets. Lord King noted (2014) *'I think the real problem was there was a shared intellectual view that things were going well.'*

8.3 Combinations of exposures and vulnerability to sudden change

The combination of factors such as: elite pressures; economic incentives; knowledge as ideology; 'social blindness'; slow learning relative to fast change; out-of-date expert knowledge; and of inflexible information production functions; created major social and knowledge exposures amongst elite and operational agents in the MFI and financial system during the 'dot.com' period (Holland, 2002), in the Enron case (Healy and Palepu, 2003), and before the GFC of 2007-09 (Holland, 2010). The combination of MFI social and knowledge problems shaped and structured information production and financial decision processes in very risky and private ways for MFI agents concerning the bank sector. Pressures existed to only think and act within 'established knowledge' in the MFI. They inhibited change and created major knowledge, information and financial risk exposures to dramatic change during the 'dot.com'period and the crisis.

In Stones terms (2005) general knowledge, and specific knowledge as finance theory, were used by elite agents, at times to: transfer untested ideas; ignore relevant research; block the (rate of) development of expert knowledge by operational agents (Holland, 2010). This appears to be a unique knowledge problem in the world of finance and MFI. In the GFC the sudden unexpected change in banks and financial markets radically disrupted the cosy interactions and states in a previously stable MFI field context and agent 'habitus' (Bordieu, 1990) and disrupted MFI actors understanding of social and economic fields. Various economic and social factors intensified existing problems in the MFI and created a negative and destructive 'innovation' spiral (Merton, 1995). They distorted shared exchanges of information between agents and contributed to underperformance and failure of the MFI concerning the banking sector. The vulnerability of MFI actors: their growing awareness of these conditions; combined with dramatic events. This contributed to their complete loss of trust and confidence in: their relationships with others; what they knew about the world and events; and what they thought others knew. These were primary factors in MFI failures and associated capital market problems leading to the 'dot.com' and Enron price collapse, the Northern Rock bank run and the GFC. Holland (2010) argued that

'The Lehmans failure corresponded to Weick's (1988) idea of a 'cosmology episode', which arises when individuals, teams, organisations, and markets suddenly feel that the universe is no longer a rational, orderly system…key players in failing banks suffered both from this catastrophic event and, simultaneously lost the means to recover from it'.

9. Discussion and conclusions

The paper has argued that regulators, academics, practitioners and others require a conceptual frame to respond to the many issues arising in the MFI. The conceptual frame proposed is based on a combination of empirical narrative and theoretical narrative. The 'empirical narrative' explored how the MFI was a core structure and mechanism for valuation, assurance and governance in the world of finance. The 'theoretical narrative' was developed by using theoretical sources to analyse the MFI in periods of stability, change, and major problems.

The paper has used these narratives to illustrate how elite MFI agents exercised power over others through their social networks and hierarchical structures. Resources such as social network position, knowledge and finance sources were the basis for their power over use of knowledge and production of information. Many elite agents shared common economic interests, common ideas and ideology about how the finance system and the MFI should work. They shared a culture of secrecy living in a 'bubble' of finance isolated from other citizens. As insiders they shared a culture of wealth maximising, which became: a culture of bonuses, greed, risk taking with citizens' resources (Turner, 2009, Kay, 2015)' and indifference to outsider citizens (Jones, 2014). They used their collective resources: to resist change; to adapt to major problems; and to maintain their advantages. The problems discussed in sections 7 and 8 have proved to be very serious for the MFI, financial system and citizens.

As a result, the conceptual frame is required to develop: a critical stance; new policy prescriptions; and new regulation. Actions involve: reform of social and economic structures; especially in (concentrated and elite) social and economic structures in the MFI. They involve: making explicit: privately shared knowledge in MFI; change processes: and formal learning. These changes together form a coherent means to control behavior in MFI and reduce risk of failure. They are required to deal with negative change and problems re-emerging in the MFI. Change in the MFI also requires improved transparency and systemic changes in all economic, social and knowledge structures in the pursuit of fairness and social justice for all investors and citizens. In particular, there is a need to widen the 'Overton window' (Jones, 2014, p xviii) or what is 'deemed politically possible at any given time'.

Developing coherent narratives and a critical stance

In previous sections, sources such as Bourdieu (1990), Stones (2005), Merton (1995) and related literature were used to develop a new 'theoretical narrative' to interpret the MFI 'empirical narrative' and overcome problems in understanding the MFI. This approach is consistent with Ahrens and Chapman (2006) argument that researchers should view qualitative field study as a theoretical activity (Jack and Kholeif, 2007). The analysis of MFI problems and related agent and parent firm problems suggests that such a theoretically grounded understanding of the MFI is a basis to develop and maintain a critical stance on ongoing MFI operations, change and problems. The use of concepts of 'habitus' from Bordieu (1990), 'structuration' from Stones (2005)and ideas of 'performativity' from Mackenzie (2006), and their application to the empirical phenomena can help develop and maintain this critical stance. If these sources are combined with Merton's (1995) idea of a financial innovation spiral then a new explicit means to critically appraise ongoing MFI operations, change and major problems, can be developed. This is superior to a world where many invisible MFI factors are allowed to have hidden, negative and unchallenged effects potentially leading to failure. The following policy proposals for change in social structure and knowledge are intended to enhance that visibility, to improve accountability of MFI agents to wider civic society, and create a new and fairer public 'battle'.

Social structure policy changes

A new 'magna carta' is required to break up the power of 'big barons' or elite in the MFI and reduce secrecy. There is a need to break up the concentration of power in MFI social networks involving large companies, large banks, accounting firms, auditors, rating agencies, and financial media. The 2009-2017 debate about 'breaking-up' or 'ring fencing' specialist functions in the very largest conglomerate banks was primarily about systemic financial risk issues (TBTF) in banks and financial system. This paper argues that non financial systemic risks need to be considered. There are equally good information, knowledge, and governance reasons to break up the concentrated private social and economic structures for all such large firms to make the MFI a' fair playing field'**.** There is precedent here with the: US break up of Universal banks in 1933; UK price sensitive information legislation in 1993-94; US 'fair disclosure' act in 2000; SEC control over analyst bias in 2001; Financial reporting and governance changes post Enron; Arthur Andersen break up 2002; Lehmans failure 2007; and banking changes post 2008. However, such changes have been fragmented relative to the larger financial system and the combined empirical and theoretical narrative of the MFI.

There is an associated need to make visible MFI social structure and knowledge at the levels of agents and firms. This requires more public information on many matters such as inter alia: overlapping directorships in the finance sector; agent movement across financial firms; cross equity holdings by elite agents; conflicts of interest; background and skill sets of directors and top management; and broad network 'maps' of information traffic between MFI agents. More public information is required on income, wealth and tax data for elite and operational agents in the MFI. Given the problems, incentives, temptations and secrecy, those who are closest to the flows and resources of finance should have tougher not weaker disclosure and ethical behaviour standards. The 'fig leaf' camouflage of 'caveat emptor' and assumed 'fairness' effects of 'efficient markets' has to be removed and higher transparency established. Some progress has been made on these matters, but a more a coherent approach based on combined empirical and theoretical narratives is required to make the social networking, power, knowledge, and financial resources of MFI agents and the wider world of finance much more visible and open to accountability in civic society. Such 'social and knowledge' disclosure is as important as conventional corporate financial disclosure. This can stimulate a public debate about breaking up the concentration of power in large conglomerates and make private action and influence of elites more accountable.

Reform also requires a co-ordinated approach to *change* in: company disclosure; analyst research; and FM use of information. This could involve MFI regulators analysing 'innovative' information sources and financial transactions (and the firms creating them) for: spurious complexity; increased risk; poor links to the 'real' economy; and likely problems. This could create disincentives for elites and conglomerate financial firms to use change processes to exploit the finance system in way that offers them positive financial gains whilst essentially extracting wealth from a fixed but diminishing public resource (Kay, 2015). Such operational change should be consistent with ideas of improved economic efficiency and of fairness relative to the wider investing public. As Mark Carney (2015), Governor of the Bank of England argued 'Markets need to retain the consent of society – a social licence – to be allowed to operate, innovate and grow'.

Knowledge and research based policy changes

Reform also requires a co-ordinated approach to *change*, learning, and knowledge creation by MFI practitioners and academics. For practitioners, the change process in the MFI, and events such as GFC and post crisis period revealed how the lines between general and specific knowledge for MFI agents, and between various forms of specific knowledge (Stones, 2005), could change with learning. This situation has publicly challenged taken-for-granted views of the world of finance and MFI. Turner (2009) argued

'the crisis also raises important questions about the intellectual assumptions on which previous regulatory approaches have largely been built' … 'At the core of these assumptions has been the theory of efficient and rational markets. …these assumptions are now subject to extensive challenge on both theoretical and empirical grounds, with potential implications for..Regulation' .

This suggests that literature on 'organisational learning' and knowledge creation could be used by regulators to influence the MFI change process**.** Pedler et al, (1997) ideas on effective learning in large organisations; Merton's (1995) 'financial innovation spiral' and the creation of expert knowledge; could be the basis for 'good practice' guidance by regulators.

Changes to academic research and knowledge are also required. Keasey and Hudson (2007) argue that finance theory is an academic 'house without windows'. This paper provides examples how to open a finance theory research 'window' for researchers. However, for such changes to occur in the world of MFI research, and to take effect in the immediate future, also requires changes in the concentration of power in the world of academic finance. A new 'magna carta' is also required in academic finance concerning the prestigious US and EU universities and the top rated journals (Whitley, 1986; Hopwood, 2009; Gendron and Smith-Lacroix, 2013). There is a need to reduce their control over the appropriate theory base for understanding finance phenomena such as the MFI. The proposed adoption of new theory framework and critical stance is intended to support this. As Gendron and Smith-Lacroix(2013) argue that,

' finance research has largely failed to invest in the promotion of paradigmatic diversity, and ..resist the idea…. finance's lack of diversity in research paradigms .. translates into a body of knowledge that presents important limitations when trying to make sense of ..phenomena, not least of which are infrequent but highly significant events unfolding in the political economy'

The above learning and research approaches can provide means to continuously enhance the empirical narratives and theoretical narratives outlined in the paper.

Control of behaviour and avoiding crises

The paper argues that use of empirical and theoretical narrative, and ensuring their widespread use and continuing improvement, are ways to counter crisis conditions in MFI social networks and financial markets. Akerlof and Schiller (2009) suggest that in the world of finance new ideas and new psychological states spread like a new virus contagion or pandemic in a population without immunity. This contagion can be seen as the basis for systemic risk in financial markets. Part of the solution to contagion and systemic risk lies with 'immunization' through prior knowledge (eg of MFI social structures and MFI firm business models) and continuous learning to break out of the 'psychic prison' (Morgan, 1986). It lies with reform of elite social structures and concentration of power. The transmission of meaning, knowledge and stories in the MFI between elites (as established knowledge) and operational agents (as an established narrative) through contagion must be controlled. Historic 'contagion' such as during the 'dot.com' boom and Enron case (Healy & Palepu, 2003), and before and during the GFC (Holland, 2010), demonstrate how important this idea is. Learnt MFI constructs must be tested by deeper and more widely diffused knowledge (empirical, theoretical) at the point of knowledge and story transfer. 'Immunization' through learning and knowledge use must take effect at: management and operational levels in MFI firms; in wider MFI social networks; and MFI exchange mechanisms.

The proposed improved transparency and changes to social structure, knowledge and operations may prove difficult due to the lobbying power and political party financing power of 'concentrated' financial capital (Jones, 2014). If limited and fragmented action continues to be taken by US, EU and other G20 politicians and regulatory authorities the same problems will re-emerge. Elites are likely to exploit fragmented change: via their social networks, knowledge, and power; for their own personal and elite group benefit (Gluckler, 2013). Given the concentration of elite power and the lack of critical frame, a *public* debate is unlikely to be initiated by elites in the MFI concerning knowledge of *private* social structures, power, and processes. This means that the next window of opportunity for change would be the next crisis and that *'ideas lying around'* (Friedman (1982, preface) will be the basis to make '*the politically impossible ….the politically inevitable'.* However this paper argues that new ideas and policies can be developed and the 'Overton window' (Jones, 2014) post GFC can be kept open. The development of more complete and critical theoretical framework matched to empirical insights has been proposed as a key means to stimulate the debate and open up the private world of the MFI.

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