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The Field of Investment Advice: The Social Forces that Govern Equity Analysts

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1 May, 2023

ACKNOWLEDGEMENTS: The authors would like to thank editor Chris Chapman and two anonymous reviewers for their guidance throughout the review process. We would also like to thank participants at the 2021 Society for the Advancement of Socio-Economics (SASE) conference and at seminars where earlier versions of the paper were presented at the London School of Economics, Concordia University, Cardiff University, Hebrew University Jerusalem, Monash University, the University of York (UK) and Queen Mary University London. We thank the following persons for commenting on earlier versions of the paper: Per Ahblom, Chris Carter, Stefano Cascino, Mark Clatworthy, Maria Correia, Tuan Ho, Joanne Horton, April Klein, Ken Lee, John Millar, Svetlana Mira, Jacob Ott, Alex Preda, Dan Segal and Ane Tamayo. Crawford Spence acknowledges financial support from the British Academy/Leverhulme [grant number SRG1819\190607].

ABSTRACT

Literature on equity analysts presents a conundrum: analysts are seen as influential market participants, yet researchers widely criticize them for their bias and inaccuracy. Studies drawing from economic frames struggle to explain this. Therefore, we develop a new conceptualization that positions analysts as actors operating in a social field. Drawing on a qualitative study involving 70 interviews with analysts and portfolio managers, we offer two broad insights. Firstly, we identify long-term interpersonal and inter-institutional ties between buy-side and sell-side actors which contribute to social inertia in the field. Secondly, we illustrate how sell-side analysts' social environment is dichotomous, pushing some to converge with consensus estimates, while encouraging others to diverge. Taken as a whole, our findings contribute to the accounting literature by enriching our understanding of the social and institutional forces that govern analyst behavior.

Keywords: equity analysts, equity research, qualitative field study, field theory, social inertia

I. INTRODUCTION

Much extant literature regards equity analysts as important actors in the process of investment decision-making by providing professional investors with information and advice such as earnings forecasts, buy/sell recommendations, and target prices (Bhagwat and Liu 2020; Schipper 1991; Ramnath, Rock and Shane 2008; Bradshaw 2011; Stickel 1995; Womack 1996; Barber, Levahy, McNichols and Trueman 2001; Michaely, Rubin, Segal and Vadrashko, 2023; Brav and Lehavy 2003; Asquith, Mikhail and Au 2005; Frankel, Kothari and Weber 2006; Twedt and Rees 2012; Huang, Zang and Zheng 2014; De Franco, Hope, Vyas and Zhou 2015). In addition, literature indicates that analysts' outputs have the power to discipline company management, forcing the latter to harness corporate strategies to the mental frames that analysts develop in order to evaluate firms (Beunza and Garud 2007; Giorgi and Weber 2015; Zuckerman 1999, 2000, 2004). The importance of analysts to firms is also evident from the various tactics that CEOs and corporate directors employ in attempts to influence analyst perceptions (Washburn and Bromiley 2014; Konig, Mammen, Luger, Fehn and Fehn 2018). Indeed, analyst downgrades have been shown to be positively associated with corporate directors exiting corporations (Harrison, Boivie, Sharp and Gentry 2018).

In contrast with these findings, surveys of institutional investors consistently reveal that they regard written investment advice from equity analysts as less useful than other sources of knowledge, such as insights obtained from company management or from industry experts (see Bradshaw, Ertimur and O'Brien 2017, Brown, Call, Clement and Sharp 2016).

Additionally, academic literature finds strong indications that analysts' predictions and

analyses are inaccurate or biased and tie these to the structure of incentives and career motivations that persist in analysts' institutional context (see, for example, Das, Levine and Sivaramakrishnan 1998; Fogarty and Rogers 2005; Groysberg, Lee and Nanda 2011; Lourie 2019; O'Brien, McNichols and Lin 2005; Lin and McNichols 1998; Liu and Natarajan 2012; Hong, Kubik and Solomon 2000; Clement and Tse 2005) or to analysts being motivated more by the behavior of other analysts than by firm performance *per se* (Bowers 2020; Bowers, Greve, Mitsuhashi and Baum 2014; Baum, Bowers and Mohanram 2016; Rao, Greven and Davis 2001).

These two widely held insights into sell-side analysts – that they are key actors in capital markets, yet their actual value to investment decision making is unclear – constitute something of a conundrum in literature on analysts. Recent research adds weight to this conundrum by pointing out that analysts are not necessarily valued for the substantive information and interpretations they provide. For example, studies show that analyst work is often used ceremonially in companies' partially staged performances (Brown, Call, Clement and Sharp 2019); that analyst research reports are not the end point of their work but generally a means towards various ends (Brown, Call, Clement and Sharp 2016; Spence, Abhayawansa, Aleksanyan, Imam and Millo 2019); and, that analysts are often unfairly all tarred with the same brush, while in reality certain analysts are superior to others (Bradshaw, Ertimur and O'Brien 2017) or approach stock recommendations in often quite different ways from their competitor analysts (Graaf 2023).

Our review of the literature leads us to suspect that regarding sell-side analysts as primarily economic actors may fail to fully capture the multifaceted social and professional landscape in which they operate. Thus, to improve our understanding of sell-side analysts and their

persistence in capital markets, we suggest identifying the economic conditions in the field of investment advice and the social forces that support and maintain analysts in their current position in this field. To this end, we conducted a qualitative field study where we interviewed 70 market participants (sell-side analysts and their buy-side clients) from the U.S. and the U.K. To account for the broader social setting, we develop a theoretical framework based on concepts from sociological field theory. While we do not motivate ourselves out of a positivist tradition, we do try to speak back to those working in that tradition, highlighting the value that a more sociological perspective can offer.

The paper proceeds as follows. The following section reviews the extant literature on equity analysts and presents the concepts of field and social inertia that are used to frame the present study. Our research methods are then outlined, including a detailed exposition of the data collection and data analysis procedures. A subsequent section outlines the key empirical findings of the study, split into a series of sub-sections related to social inertia and consensus-related practices. The paper finally discusses the main findings, highlighting our contributions to research on equity analysts in capital markets before concluding and offering suggestions for future research.

II. BACKGROUND AND THEORY

Recent Accounting Literature on Equity Analysts

While the literature on equity analysts has produced a wide range of insights into inter alia price formation, information exchange, status allocation, and efficiency in capital markets (see Brauer and Wierseman 2018 for a review) there have been calls for more direct explorations of the roles that analysts play in capital markets (Bradshaw, Ertimur and

O'Brien 2017). Such calls are motivated by the growing recognition that there is much complexity in what analysts do and in their social and organizational environments, both of which tend to be under-emphasised by existing research designs that characterize analysts primarily as economic actors. Recent qualitative work, however, has begun to point toward a broader, more variegated arena than hitherto depicted, along with a variety of promising research avenues to explore (see below). We agree with many of the insights developed in this literature and indeed we build on these as we develop our motivations. Nevertheless, we are skeptical about two central assumptions therein: a primarily economic conceptualization of analysts and the treatment of analysts as a somewhat homogenous category of actors.

First, we address the economic framing and related informational functionality we identify in the literature. Bradshaw, Ertimur and O'Brien's (2017) review of the literature ascribes three distinctive roles for analysts in capital markets, all of which are informational: information discovery, information interpretation and, information dissemination. Indeed, even where authors ascribe additional roles to analysts such as monitoring (Bradley, Gokkaya, Liu and Xie 2017) these appear to be a direct consequence of publishing credible information and analysis in analyst reports. This conceptualization seems to be too reductive, as suggested by Brown, Call, Clement and Sharp's (2015, 2016, 2019) series of groundbreaking papers that presents a richer characterization of what analysts do. These papers reveal the importance of carefully cultivated relationships between three distinct groups of actors: company management, buy-side investors, and analysts. Brown, Call, Clement and Sharp's (2015) empirical engagement with sell-side analysts via a survey and interviews reveals that maintaining private communication channels with company management is more valuable for analysts than their own research. This study also suggests that analyst forecasts – the main empirical resource for the majority of the extant literature on analysts – is a means to an end

rather than an end in itself for analysts (see also Spence, Abhayawansa, Aleksanyan, Imam and Millo 2019). In a related study, Brown, Call, Clement and Sharp (2016) show that sell-side analysts are valued by investors less for their stock recommendations than for their in-depth industry knowledge and ability to broker access to company management. Similarly, Maber, Groysberg and Healy (2021) point toward the importance of ‘concierge services’ such as non-deal roadshows and private communications. These areas, Maber, Groysberg and Healy (2021) suggest, can undermine research accuracy yet remain under-studied by the vast corpus of academic research on analysts. Indeed, some of the areas that have been studied in detail by extant literature such as conference calls (see, for example, Lee 2016) have been shown by Brown, Call, Clement and Sharp (2019) to be characterized by theatricality, implying that much visible analyst work should not be viewed primarily from a vantage point that necessitates the communication of substantive content that can be parsed for informational value.

While these studies do progress the literature, both by suggesting that sell-side analysts are regarded as more than conduits of information and by empirically mapping a wider smorgasboard of activities in which they are involved, they still tend to explain analyst work in standard economic terms of individual utility-seeking. Whilst we do not dispute the empirical findings, we find the conclusions drawn on their basis to be underspecified conceptually, specifically because from Adam Smith onwards we know that economic actors have both “self regarding” and “other regarding” sentiments (Smith 1759/2010). That is, economic actors adhere to a worldview that combines individualism with a recognition of the importance of social dynamics. Following this, decisions that appear to be underpinned solely by a simple individualistic utility-seeking rationale are often governed by social processes that, on further inspection, can be revealed as context-dependent and idiosyncratic (Bourdieu

2005). As such, previous literature tends to underappreciate the social sensitivities and social pressures that analysts have to navigate on a recurring basis.

Second, the literature on analysts tends to describe the sell-side analyst community in rather homogenous terms, i.e., as *generally* providing concierge services (Maber, Groysberg and Healy 2021), as *generally* producing interpretations of a stock that favor company management (King and Fogarty 2021) or in *generally* privileging private communications more than their own primary research (Brown, Call, Clement and Sharp 2015). Related to our previous conclusion, this may also lead to simplifications that gloss over the ways in which expertise, resources, or rewards are distributed unequally among analysts.

To be fair, a select few research streams point towards heterogeneity in the field. Bradshaw, Ertiumr and O'Brien (2017) as well as Rubin, Segal and Segal (2017) suggest that some analysts might be better at performing certain analyst roles than others and call for more research mapping out this diversity. Recent field studies of the sell-side also suggest a world where heterogeneity is the norm. For example, Graaf (2023) indicates that analysts adopt different ways of framing companies in order to compete with each other, confirming previous conclusions along these lines by Beunza and Garud (2007). Graaf and Johed (2020) also point towards the sell-side as a divided community, highlighting instances where sell-side brokers produce investment theses that are against consensus and, by extension, against the viewpoints of their own analysts (see also Lee and Manochin 2021). Despite these efforts to identify heterogeneity on the sell-side, this area has not been fully captured nor theorized by existing research. These findings are also supported by research showing that other financial professionals present significant variance in how they perform their tasks, whether that be in fund management (Millar 2021), public accounting (Spence and Carter 2014) or tax

(Gracia and Oats 2012). Similar to our assertion about the more complex nature of rationality and motivation among sell-side analysts, we believe that the complexity of the social environment in which analysts operate is likely to also be reflected in heterogeneity among these actors and that to understand them better we need to explore the forces underpinning and maintaining this heterogeneity. In the following two sub-sections, we build on the two assumptions discussed above and develop theory that motivates our research questions.

The Field of Investment Advice: theory development and research questions

To better understand the social environment of sell-side analysts, the present study draws from field theory. Field theory is suitable, we believe, for developing a framework that explains the forces that govern sell-side analysts' contribution to investment advice for two main reasons. First, field theory expands the motivations relevant to actors' behaviour beyond those associated directly with economic utility maximization. Second, field theory recognizes actors' inherent motivations to maintain and strengthen the social order in which they are positioned while also acknowledging that fields are arenas of competition. We elaborate on these postulates below as we build towards our research questions.

Field theory has its roots in the sociological work of Bourdieu (see, for example, Bourdieu 2005; Bourdieu and Wacquant 1992) and has more recently been extended methodologically by Fligstein and McAdam (2012) for application at different levels of analysis. A social field denotes a heterogeneous, but relatively coherent population of individuals or groups who recognize both formal and informal 'rules of the game' (Bourdieu and Wacquant 1992). Professionals, over their careers, learn to recognize and adhere to social and cultural norms, accept their underpinning rationale and, gradually, act in ways that manifest and support the relevance and validity of such norms, thereby embedding them even further (Bourdieu and

Wacquant 1992: 116). Fields are also arenas of struggle and competition between different sub-groups of actors. Indeed, fields thrive on internal differentiation and distinction work, to the point where internal differentiation or conflict is actually a constitutive condition of field structure (Bourdieu and Wacquant 1992). For example, fields have been classified by scholars in terms of incumbents vs challengers (Fligstein and McAdam 2012), the dominant vs the dominated (Bourdieu & Wacquant 1992), the technocrats vs the rainmakers (Spence and Carter 2014) or more multifarious taxonomies which seek to identify myriad groups of actors who make up fields (Savage and Silva 2013). Similarly, although all actors recognize the existence of ‘rules of the game’ - the prevailing norms in the field - some actors may regard the rules as an opportunity to advance their own interests, while others may see them as a constraint on their ability to succeed. As such, despite the wide recognition of field-level ‘rules’, there is often great variety within fields as actors endowed with different resources and interests aim to use these to improve their positions (Bourdieu and Wacquant 1992; Fligstein and McAdam 2012).

Fligstein and McAdam (2012) suggest that because of the multiple resources and dynamics that play out in fields, field-level norms cannot be understood fully by reference to utility-maximisation exercises. We develop this point further and, combining this notion with earlier work by Bourdieu, we posit that patterned behaviours in such fields are often governed by ‘a practical sense acquired from experience’ and thus follow ‘less rational calculation and more the establishment of routines’ (Bourdieu 2005: 9). Analysts, as actors within a specific field – the field of investment advice – do not simply react to discrete economic opportunities or risks, but instead make decisions that take into consideration ‘the whole structure and history of the surrounding field’ (Bourdieu 2005: 72). This element of field theory provides us with two important insights. First, it expands the repertoire of relevant social skills in the field of

investment advice and implies that sell-side analysts, as actors in a social field, aim to improve their situation using all resources they perceive they have at their disposal; economic resources as well as social (e.g. connections) and cultural (e.g. skills, expertise, professional authority) resources. Second, the 'rules of the game' that prevail in a given field are shaped and learned gradually through recurring interactions and are the product of experience, habit, and routine which, to some extent, evade conscious consideration as they become part of the taken-for-granted worldviews of these actors. This habituation to the implied rules of the game is also expressed in the belief that the established social order in the field represents an objective and natural truth; that the way things are is the way they should be (Fligstein and McAdam 2012: 51-52).

In the context of such field dynamics actors tend to affirm their field position by establishing and strengthening their membership of the sub-groups to which they believe they belong. Moreover, as they do so, actors also strive to emphasise and draw distinctions between their sub-groups and others (Fligstein and McAdam, 2012: 168). These two motivations can be simultaneously present in social fields and, as such, have important implications for understanding the actions of sell-side analysts. For example, the research by Brown, Call, Clement and Sharp (2015) reveal dynamics where sell-side and buy-side actors interact with one another and together generate insights and interpretations of different investment prospects. This suggests that knowledge generation in the field of investment advice is distributed across actors that play different economic roles but who come together in order to support investment decision making.

In turn, extant research also indicates that this distributed knowledge generation is dependent on years' worth of sell-side analysts dedicating time and effort to establishing and

maintaining strong connections with buy-side and corporate actors (Spence, Abhayawansa, Aleksanyan, Imam and Millo 2019). Therefore, in addition to paying attention to the value of the advice that sell-side analysts provide, we should also examine the traces left by the biographical evolution of the social ties and accompanying justifications that make up the field. These traces will shed light on the interdependencies and relationships that have built up over time between sell-side analysts and buy-side actors that may have become habitual, taken-for-granted features of investment decision making.

Another relevant postulate from field theory is that actors, as they learn and internalise the rules of the game in their field, also aim to maintain and strengthen the social order that supports these rules. Literature indicates that there are strong economic inter-dependencies between categories of actors in the field and that these dependencies are associated with phenomena like biased predictions (Green, Hand and Sikochi 2022). Here, field theory provides additional insight into our understanding of sell-side analysts, suggesting that actors might resist change and stick to existing practices, not only because of some perceived economic benefit. First, building a network of contacts demands a considerable investment of time and energy and thus motivates actors, especially sell-side analysts, to preserve their hard-won contacts and refrain from jeopardising them. A second and more fundamental motivation is that the social ties in the field provide the actors with a social order that supports their professional worldview about how ‘things should work’ (Bourdieu 2005). As such, establishing, maintaining and defending social ties and related practices would be expected by all actors involved, not only sell-side analysts. Additionally, the foregoing implies that maintaining the social order may be so important for actors that they would protect their social ties even if this would imply rejecting potentially innovative ideas or new

opinions, as the actors' worldviews are embedded into the existing social structure of the field.

We term this cluster of predicted behaviors and worldviews whereby sell-side analysts aim to protect and reproduce the existing social structure in which they are situated *social inertia*.

On aggregate, we expect a social field characterized by social inertia to withstand economic pressures to change and still maintain its social structure. This gives rise to our first research question:

RQ1: What evidence of social inertia can be found in the interactions between buy-side and sell-side actors in the field of investment advice?

To examine another key postulate of field theory, actors' propensity to differentiate their subgroup, we chose to examine practices related to consensus estimates (i.e. EPS). Consensus numbers represent an aggregate of considered individual analyst opinions, but also allow a variety of individual reactions to the numbers (Clatworthy, Ho and Zhu 2022) and enable a comparison between the consensus and individual analysts' forecasts (Michaelli, Rubin, Segal and Vedrashko 2023). However, as they combine in order to focus minds on one representative number, consensus numbers also become a somewhat homogenizing, normalizing force that market players are forced to pay close attention to (Macintosh, Shearer, Thornton and Welker 2000). The literature indicates that consensus numbers, although not considered necessarily as representing an objective truth, are frequently regarded as 'the view of the market' (Beunza and Stark 2012) by actors who then interpret their different reactions to the numbers, which contributes to consensus numbers turning into implicit coordination devices.

We believe that consensus numbers play an important role in the field of investment advice. Both Bourdieu (2005) and Fligstein and McAdam (2012) regard fields as arenas where actors

continuously plan and act in relation to other actors: ‘Actors make moves and other actors have to interpret them, consider their options, and act in response’ (Fligstein and McAdam 2012: 12). The public nature of consensus numbers (published typically by Bloomberg, FactSet, and Refinitiv) gives actors the ability to ‘see’ the entire field to which they belong. That is, consensus numbers allow analysts to position themselves vis-à-vis an aggregated version of views in the wider field. Most pertinently, consensus numbers may facilitate field-wide positioning, such as permitting rookie analysts to compare and position themselves vis-à-vis prestigious analysts who themselves may have taken a position that converges with consensus. Consensus numbers and the positioning practices that surround them are thus indicative of a social and informational infrastructure that may help provide a richer explanation for phenomena such as herding, or conversely of boldness whereby some analysts try to diverge from the herd in abrupt ways.

This gives rise to our second research question:

RQ2: What different consensus-related practices are undertaken by sell-side analysts and what do these reveal about the heterogeneity among sell-side analysts in the field of investment advice?

These two research questions explore the social underpinnings of economic action in the field of investment advice. Combined, the examination of these research questions help us to build an overarching theory about the field-level social forces that govern equity analyst behavior. Whereas it has been observed that analysts herd together, exhibit boldness or often produce inaccurate forecasts, the field perspective here looks beneath these epiphenomena to identify the underlying social structures that help bring them about.

III. RESEARCH METHODS

In order to explore our research questions, we constructed a qualitative research design that engaged actors directly from the investment (“buy-side” as it is known in practice) and the brokerage and research (“sell-side” as it is known in practice) segments of the field of investment advice. We opted for interviews as our chosen data collection method as a means of exploring and interrogating the practices and viewpoints of actors in the field. Interviews were conducted in both the United States (Chicago and New York) and the United Kingdom (London). Each of these cities is a major financial center where institutional investors and research providers can be found, ranging from bulge bracket investment banks to boutique research providers.

Our 70 interviews covered a broad spectrum of different investment professionals, covering different relevant factors such as tenure, size of firm, and investment strategies. Our intention was to speak to actors on both sides of the investment advice dividing line in order to more fully explore the relationship dynamics between them. Our approach was interpretive and was informed by the Gioia method’s (Gioia, Corley and Hamilton 2013) injunction to give appropriate space and voice to the actors under study. This produced 1st order findings that were then subjected to a more conceptually driven 2nd order analysis that could form the basis of contributing to extant literature.¹

Data Collection

Potential research participants were identified via a private database of investment professionals administered by a training company focused on equity research analysts. Once suitable candidates were identified, they were approached via email and asked to commit to a

¹ Ethics clearance for this field study was obtained prior to commencement of data collection by the sponsoring institution.

60-75 minute interview either at their own premises or an alternative location rented nearby by the writing team. Participants were offered either an Amazon gift card or a contribution to a charity of their choice. Many participants availed themselves of this offer although a minority were unable to receive such gifts due to internal company protocols. Of the 8,683 individuals contacted via email, 48 agreed to be interviewed. Further individuals were recruited via personal contacts and the snowballing technique commonly used in qualitative studies.

Among the interviewee subjects, 29 were sell-side actors (producing research and advice for institutional, buy-side clients) and 41 were buy-side actors (either portfolio managers or in-house analysts who worked for a portfolio manager). There were 12 participants with experience on both the buy-side *and* the sell-side and so were in a position to comment on changes to both over time. We privileged buy-side actors slightly more than sell-side actors in our sampling because the practices and professional worldviews implied by our theoretical framework were likely to be more evident in cross-role interactions in the field and potentially present the sell-side in a less than flattering light. As such, we were keen to interrogate both how the sell-side sees itself and how the sell-side is perceived by the buy-side.

The sample was relatively evenly split between the UK (38) and the US (32). Among the locations, 20 interviews were undertaken in Chicago in comparison with 12 in New York although no major differences were anticipated and indeed found from either empirical site in terms of 1st or 2nd order findings, which is indicative of generalizability. The vast majority of interviewees were male (N=54) which is largely reflective of the gender composition of the equity analyst and fund management communities. Our sample covered a broad cross-section

of both the buy-side and sell-side communities. For example, on the buy-side our participants were involved with assets under management (AUM) ranging from just over \$120m up to \$135bn, with an average AUM of \$14bn. Their experience and seniority ranged from 1 year out of College to 30 years in the fund management industry. On the sell-side, our participants were drawn from a range of analyst firms, including specialist research providers, boutique investment houses, and bulge-bracket investment banks. Again, the experience of our sell-side participants ranged considerably, from 2 years out of College up to 20 years in the field. The 'investment universes' of both groups were generally industry-specific, but our sample as a whole covered various sectors including technology, financial services, real estate, industrials, and transportation. While all of the sell-side analysts and most of the buy-side analysts were assigned to specific industries, a portion of the buy-side population were generalists in that they focused on any industry of interest. Summary details of our interviewees including their unique alphanumeric identifier are presented in Table 1.

The interviews took place in Chicago in April 2019, New York City in June 2019 and London between March and September 2019, with 12 follow-up interviews in the UK undertaken in early 2021. The majority of the interviews took place at either university premises or specific office space rented for the purposes of the study, with approximately 15 interviews undertaken at the workplace of the participant. The 12 follow-up interviews in early 2021 were undertaken via Zoom due to COVID restrictions in place at the time. All of the interviews were recorded and subsequently transcribed, with the exception of three individuals who preferred not to be recorded. In those cases, extensive notes were taken, and these were subsequently interrogated following the same data analysis techniques that the interview transcripts were subjected to.

The interviews were 60-90 minutes in length. The initial interview protocol was designed to explore a number of themes identified as not being adequately addressed by previous literature, including: background of analysts; perceived value of sell-side to the buy-side; potential conflicts of interest between the sell-side and company management; the nature of interactions between different buy-side and sell-side actors; the potentially disruptive role of technology; the response of active management industry to the rise of passive investing; and, secular changes² in the active investment space. During and following the first round of interviews, emerging themes were discussed at length, and a slightly more focused interview protocol was pursued in rounds 2 (New York) and 3 (London) of the data collection phase.

Data Analysis

The transition from data to conceptual narrative of our findings was facilitated by the pursuit of an approach inspired by both the Gioia method (Clark, Gioia, Ketchen and Thomas 2010; Gioia, Corley and Hamilton 2013) and the elements from field theory we identified as most relevant to the field of investment advice: the propensity of actors to strengthen and protect the social order and their related tendency to aim to distinguish their particular sub-group from others in the field. The former provided a general road map by which we identified 1st order (descriptive, actor-generated) themes followed by 2nd order (conceptual, theory-driven) themes. The latter provided a general direction for developing interpretations of the findings.

The conceptual themes we identified were informed by the fundamental motivation that field theory ascribes to actors – meaning-making of their social environment (Fligstein and McAdam 2012: 168) by internalizing the surrounding rules of the game (Bourdieu 1998: 76). We regarded the aggregated practices (1st order aggregation in Table 2) as capturing different

² In the world of institutional investment, ‘secular’ changes or issues refer to factors that do not correlate with the business cycle and, as such, are seen as enduring over the longer term.

manifestations of actors aiming to establish the meanings of their relative positions in the field, (vis-à-vis concrete actors) as well as in relation to the broader field (in relation to mediated, ‘generalized’ actors). Throughout this process, the injunction to remain sensitive to the dynamics of interactions (Crossley 2011) was borne in mind. During the data analysis phase, the authors iterated between data, theory-informed emerging themes, and wider relevant social theory to develop a deeper understanding of the forces that underpin buy-side/sell-side relations.

Our 1st order analysis was undertaken using the NVivo software package. Transcripts were read by all members of the writing team and then discussed. This inductive process served to identify and code 29 actor-generated 1st order codes. Each 1st order code and its contents were then read and discussed by the three authors in detail. These discussions identified a number of overlaps and higher-level themes into which the 1st order codes were collapsed. The outcome of these discussions was 11 larger, aggregate categories. Following this, the authors conducted a conceptually driven, 2nd order data analysis. This involved rebounding iteratively between data, relevant literature, and social theory. We looked at overlapping themes and re-labeled certain 1st order categories accordingly. A limited number of interview quotes were coded more than once as they resonated with more than one identified theme.

While we avoided going as far as producing inter-coder reliability percentages as we felt this to be inconsistent with the initially inductive approach adopted (Clark, Gioia, Ketchen and Thomas 2010: 407), we nevertheless sought to instill rigor into the data analysis process through multiple encounters and readings of the 1st order codes by members of the “interpretive community” (Syed and Nelson 2015: 10). As such, the move from 1st to 2nd to eventually 3rd order codes did not proceed until all authors were happy with interpretations at

each transition stage (Campbell, Quincy, Osserman and Pedersen 2013). Our coding process and the progression from 1st order codes to 3rd order conceptual themes are captured in Table 2.

Throughout the process, and beyond the Gioia method – which despite its widespread use in various streams of business research might be too rigid for exploratory studies (Pratt, Kaplan and Whittington 2020) - we were careful to undertake a reflexive, sociological stance that made us sensitive to the ways in which we, as researchers, might be complicit in creating the world that we seek to describe (Bourdieu and Wacquant 1992). This entailed, in practical terms, careful consideration of the constructs devised to describe the research object. This was an important endeavor as one of the authors had spent a considerable amount of time in the field as a practitioner and continued to pursue commercial interests in that space while simultaneously holding an academic position. This represented both an opportunity and a challenge for the data analysis. It was an opportunity in the sense that the other members of the research team were able to more effectively decipher the jargon and tone of respondents, as well as have a sense of what respondents omitted from their answers, in ways that would not have otherwise been possible. Having a more ‘embedded’ member of the team presented a challenge for data analysis in trying to ensure sufficient distance between conceptual concerns and the lived experience of our research subjects. We addressed this issue by assigning this member of the research team the role of ‘critical observer’ of the data analysis process, heavily involved but not leading the coding process.

IV. FINDINGS

Field-level social inertia

Our findings point towards the existence of strong interdependencies between different sub-groups of actors within the field of investment advice. These social relations, in turn, are suggestive of social inertia in the field. Most notably, we find evidence of inter-personal and inter-organizational interdependencies that maintain the structure of the field, despite regulatory and economic changes aimed at disrupting these. Habit, routine, social bonds, and conflicts of interest generated by investment banking work all combine to maintain economic ties between the buy-side and the sell-side. We will now discuss these issues in more detail.

Long-term interpersonal ties

The most notable theme identified in the interviewees' discourse was a perceived interdependence between the career trajectories of the buy-side and the sell-side. Many of our interviewees described years-long, sometimes decades-long, social and professional ties that facilitate their professional activities. To note, this sentiment was expressed more by sell-side actors than by buy-side respondents, but both roles expressed similar views regarding the importance of their positions in the field.

Academic research often portrays the primary function of sell-side analysts as producers of quantitative outputs such as financial forecasts, price targets, and stock ratings. Our findings indicate that these outputs rely on an important interpersonal component. For example, sell-side analysts mentioned having 'developed relationships' (SS12) with buy-side clients and that good interpersonal relations through which common viewpoints were encouraged were important to success. Comments such as the following from a sell-side analyst were representative of this view:

If along the way I'm hanging out with the PM [portfolio manager] from [buy-side shop], then that is a very important contact, right? That endears me to them. And, I have their ear and again, to the extent that increasingly the business is about capturing mind share... (SS1)

Others emphasized the need to ‘carefully cultivate and maintain’ relationships (SS29) to support the business and that ‘it takes time and effort’ (BS9) to develop these. This finding talks to experience-based knowledge in the field. The sell-side does not learn their trade only through formal training but, importantly, through repeated interactions with other actors. Interviewees also linked the gradual and cumulative nature of positions in the field with the maintenance of the wider social order. As a result, many buy-side actors tend to privilege existing relationships. Indeed, relationships in the field were defined by more than one buy-side interviewee as ‘sticky’:

I think, at [this buy-side firm] at least, and I think this is similar across the buy-side shops; there's a very strong stickiness with your existing brokers [sell-side analysts' firms]. You don't want to develop new relationships. (BS9)

The reluctance to develop new relationships here is suggestive of mental accounting in the field, as actors recognize the efforts necessary for establishing social ties and the risks in severing such ties. This may explain why analyst performance and status can sometimes be decoupled (Paik, Pollock, Boivie, Lange and Lee 2022) because the buy-side is slow to move from an existing sell-side relationship and there is not enough bandwidth to constantly cultivate new relationships. Existing relationships are maintained through routine phone conversations and further strengthened through planned, recurring social interactions such as meals, where sell-side and buy-side actors ‘hang out’ and where ‘small talk’ and ‘shop talk’ follow one another and also where stronger bonds between the sell-side and company management were forged and strengthened (SS12, SS25, SS50). These patterned interactions corroborate the theoretical assertion that professionals hone their trade through the cementing of social ties over time.

Social ties also support the prevalence of the social order of the field, even when the economic justification for the latter appears to be challenged. Indeed, the continued existence of social ties between different financial intermediaries was evoked as a reason to explain the persistence of underperforming sell-side analysts in the marketplace. For example, one buy-side interviewee suggested that 85% of sell-side analysts add no or insignificant value to buy-side investment decisions. His explanation for why they still seem to have jobs was as follows:

So, there is friendship. There is investment banking still. Hey, you did this deal, I want you to cover me. There's a lot less than there used to be but dinners, games, free lunches, nice guy, he's got a family. There's all that shit that I think keeps people around. Sometimes, I might be a benefit of it, why do I have my job, because I'm nice? I don't know. There's a lot of that too. I think it's not even corruption. It's just reality. We hire people that we like. *A lot.* (BS2, *emphasis original*)

In the quote above we see multiple implications of field dynamics. Firstly, there are conflicts of interest generated by investment banking opportunities, specifically buy-side analysts want their firms to have access to all upcoming IPOs and therefore will maintain relationships with analysts at a firm even if the buy-side analyst finds that analyst's work to contain little of direct value. Secondly, there is reciprocity generated by gifts and entertainment. These relations are facilitated and emphasized through social events and the gradual establishment of interpersonal ties. Thirdly, there is the notion of 'cultural matching' (Rivera 2012) whereby people are hired who seem to 'fit in' culturally to a particular milieu. This tends to have the consequence of reproducing existing structures and behaviors. For example, it is revealing that this interviewee uses the masculine 'he' to describe a hypothetical sell-side analyst. If our highly gendered sample of interviewees are all routinely engaged in hiring people they like and get on with, this will likely tend towards the reproduction of a male-dominated field, with the attendant social and cultural behaviors that go with it. Fourthly, there is the sympathy generated by simply being 'nice' or having a family, which can sometimes explain the follow-up comment from the buy-side actor above:

Yeah. There's guys that, still, why are we paying them \$300,000? And, they're like, we just cut them from \$600,000 so, you can't cut them to zero. It's like, whatever. (BS2)

There is ambivalence in this respondent's explanation of this phenomenon. On one level, he laments the persistence of well-paid and (what he sees as) underperforming analysts. On another, he recognizes the importance and the taken-for-granted quality of social ties to the maintenance and reproduction of the field's social order. Similar views were expressed by other buy-side actors. For example, the following buy-side analyst rued the reality of paying sell-side analysts multiples of what was paid to expert networks for what, in his view, often amounted to less valuable insights into companies or industries. His explanation for why this was the case again evoked the sticky nature of social ties:

I think human behavior is pretty habitual and sticky. And particularly this, I think this arrangement, if it changes, it'll be a slower change over time. (BS5)

Ties are maintained through evolving social habits. These, in turn, contribute to interdependence, both social and professional, in the field, which is at the core of the inertia phenomenon.

Institutional and inter-institutional pressures

Networks of interpersonal relationships are themselves nested within a broader set of inter-organizational interests and support their existence. Our findings include the repeated characterization - from both buy side and sell side interviewees - of sell-side analysts as a necessary 'sweetener' offered by investment banks to clients as part of a wider package of services. In this respect, sell-side analysts are not seen solely in the marketplace for providing advice but to generate corporate finance work for their investment bank. This point was reinforced by sell-side analysts:

I know of some analysts - I won't mention names - but I know of some analysts especially within my sector where they're there to get banking business [...] I'm sure others hold this

opinion as well but it's very obvious. When they get on a conference call [with company management], they're not as tuned in as somebody else [analysts at firms without investment banking relationships]. (SS23)

The fact is, I think, their revenue is pretty much entirely driven by banking business. I think the fact is, today, that pretty much describes the business model of pretty much everyone on the sell-side. (SS29)

These quotes speak to an interdependence which is a cornerstone of the field's social order: sell-side analysts depend on banking deals. The quotes also indicate a pronounced differentiation between sub-groups. As SS23 implies, sell-side analysts are aware of variable quality of conference calls. The quotes also show that fields maintain social order while simultaneously emphasizing heterogeneity. The field's social order supports another economic motivation for its continued existence: even if the research provided by the individual analyst is not valued, the buy-side still continues to pay for it because the sell-side analysis acts as a portal into other investment banking services that their institution can provide:

Maybe you [buy-side analyst] don't need the research from that [sell-side] analyst but you're never going to turn off [sell-side firm] because you use them for all of the other services that they provide. (SS22).

In fact, several interviewees stressed that it is only the reliance on investment banks that justified paying commissions to certain sell-side firms. However, interviewees were fully aware of the tension between the professional services sell-side analysts provided formally and the social and economic reality in the field. For example, when pressed about why his firm kept paying commissions to sell-side analysts, a buy-side actor responded: 'I mean, like, I'm not going to bullshit you. It's corporate finance', referring to access to the stocks of IPOs being managed by the sell-side firm. Although these kinds of incentives have been targeted by regulations such as MiFID II, interviewees pointed out that this has only succeeded in moving from 'a direct compensation structure to an indirect compensation structure' (BS7) and that the conflicts of interest generated by myriad investment banking services still exist:

‘nobody says it out loud, [but] no doubt that it's there’. These indicative quotes reveal the fundamental social structure of the field. Beneficial economic transactions support the inter-institutional ties which constitute ongoing conflicts of interest but these ties, in turn, are built on habitual interpersonal interactions.

Other practices related to the implicit bundling of services refer to the value of continuous and broad coverage (BS6), even regardless of the quality of that coverage, as the following interviewee suggested: ‘They have to have coverage, right? They have to be able to offer a broad platform or whatever’ (BS24). The flippant use of the ‘whatever’ here is suggestive of some cynicism regarding the privileging of coverage over quality.

Relatedly, other interviewees from the buy-side commented that trading commissions paid to the top five investment banks cover the costs of their analysts, with little need to generate revenue from research, prompting these firms to hire relatively inexperienced analysts:

That's why [investment bank] hires 26 year-olds and pays them \$200 grand, because [...] they're still going to get plenty of trading commissions [...] (BS10)

Although a \$200,000 annual salary might appear high, especially for an analyst only a few years out of college, the implication above is that this level is relatively low for the field. The interviewee is suggesting that the investment bank has little incentive to hire experienced analysts (at significantly higher salaries) who produce higher quality research because doing so will not lead to a concomitant increase in revenue or commissions.

Additional practices that reflect the structure of the field were expressed by interviewees who tied the continued employment of many sell-side analysts to motivations to ‘promote stocks’, ‘generate commissions’ and to ‘get capital inflows’, concluding that sell-side analysts are not

motivated to produce high-quality interpretation and accurate forecasts as ‘they could be wrong and make a ton of money’ (BS28). This strong focus by the buy-side on revenue-making regardless of the quality of analysis is also regarded as a driver of short-term and low-quality interpretation from sell-side analysts. In particular, several of our interviewees noted that the relative dominance of short-term investors, especially hedge funds and the reliance of brokers on volume-based commissions, tends to shape research output to become more short-term and less interpretative (BS19, BS4, BS9).

We have examined, so far, different manifestations of the particular motivations in the field to protect the social order in which analysts operate. We have seen how inter-personal relations are tied up with inter-institutional dependencies that, in turn, provide economic justifications for the social order. This multifaceted phenomenon, which we term as field-level inertia, is also manifested in internal organizational practices and accompanying professional worldviews.

For example, members of buy-side firms reinforced the view that buy-side/sell-side relationships outlive their useful economic lives and that payments for sell-side services do not rely solely on the quality of their analysts’ output. When a junior buy-side analyst was asked why his firm paid sell-side firms that did not add value to their research effort, he replied:

I don't know, because I don't manage the payment of our brokers. It's done... It's managed by someone else (BS30)

This quote is indicative of an institutional setting whereby those who avail themselves of sell-side research are not those who actually decide on the access to it. Field-level inertia is also expressed in the the continued opacity of the payment structure, as is captured in the

following indicative quote from a sell-side analyst: ‘Nobody understands the business model. It's the only product that I've ever encountered where you give it to somebody, and you hope they pay you for it’ (SS25). These examples indicate a disconnect between the front and back offices in buy-side shops, an institutional blind spot that is maintained through the inter-personal and inter-institutional ties around it. To stress, our findings in this matter indicate, we believe, genuine uncertainty about the value assigned to sell-side research. However, and crucially, when these findings are placed in the context of the social field of investment advice and its practices, relations and dependencies, one can appreciate how this environment supports the continued existence of such uncertainty. Through a combination of *inter alia* habit, routine, career interdependencies, misperceptions over their actual role and generalized confusion over who gets paid and why, sell-side analysts persist in the field of investment advice.

Field-level heterogeneity reflected in consensus-related practices

The elements of the data analysed so far explain the biographical and institutional social processes of tie-formation that motivate actors to support and protect the social order in the field. The social order is also a backdrop for heterogeneity, as the continued jockeying of actors’ relative positions vis-à-vis others in the field and via-à-vis ‘the rules of the game’ generates motivations for different actions among actors. We examine this heterogeneity by studying practices related to consensus numbers undertaken by different sub-groups in the field.

Consensus numbers as representations of ‘the market’

The consensus numbers serve as a crucial point in the calculative process through which actors, both on the buy-side and sell-side arrive at their valuation:

We do our own internal cashflow modelling for our companies. And we'll take a look at it, "Hey, are there big deviations between what we're forecasting versus what the market is perceiving to be achievable?" And the only way to put a gauge on what the market feels is to look at consensus numbers, right? (BS16)

As the quote indicates, consensus numbers serve as benchmarks for assessing one's validity of valuation. This benchmarking process is not merely calculative but also serves a social function, helping to assess the relative position of the sell-side analyst in the field. In particular, analysts can gauge their forecasts in relation to those of others as they are publicly visible and aggregated in the average figure. Our interviewees repeatedly referred to consensus numbers as representing the aggregate opinion of the market about asset prices. Referring to consensus numbers as indicative of the market plays a central role in many calculative practices. This is curious on one level because buy-side actors were, in the main, uninterested in the forecasts or price targets put out by individual analysts. However, when these individual forecasts were aggregated together, they took on a different significance for the buy-side:

[W]hat if the sell-side didn't exist? You then wouldn't have these numbers out there to anchor on, that we pay so much attention to. [...] then we, on the buy-side [...] wouldn't have a crutch, if you will, from the sell-side analysts. (BS9)

The 'crutch' in the quote above denotes a field-level professional dependency. The cognitive anchorage of the consensus numbers also poses a positional dilemma to each sell-side actor: would they agree with the published number or differ from it? This dilemma, although omnipresent as such in the interviews, is also frequently embedded into other calculative practices. Because of their inclusion at early stages in the calculative process, consensus numbers are incorporated into the arguments being developed and then communicated by buy-side or sell-side actors without necessarily being scrutinized directly for their validity:

I think a lot of people on the buy-side will have a sector evaluation sheet, or [will be asking] 'what's consensus estimates? [...] What's the price?, and then therefore what's the multiple? (BS9)

As the quote indicates, consensus numbers are fed into buy-side decision-making as supporting evidence for opinions. This increases the importance of consensus numbers in stealth-like fashion – the reliance on the consensus number is hidden within the calculation that supports an argument. That is, for one to criticize the reliability of the argument, one would need to deconstruct it, as by now the consensus number serves as an infrastructure for developing opinions rather than a visible building block in the discourse. Otherwise put, consensus numbers become embedded as ubiquitous facts of life in financial markets.

Although buy-side actors frequently question how individual forecasts from sell-side analysts are arrived at, they tend to question the validity of the aggregate consensus numbers less. This differential treatment of predictions can be explained by consensus numbers not being associated with any specific actor. This, perhaps paradoxically, lends consensus numbers a protected status of sorts. That is, although these numbers are based on calculations from the sell-side, they are compiled and published by a seemingly disinterested party (Bloomberg, FactSet, Refinitiv), and they are thus regarded as a de-facto standard when assessing the market.

Consensus numbers not only represent the field in general, but they also frame how actors perceive the field and how they differentiate between different categories of actors:

[Y]ou kind of can break that out [Bloomberg consensus numbers] between the 20 sell-side names that are up there ... and maybe there are a couple of outliers. It's pretty obvious that those outliers, there's something wrong in their numbers. [...]
So if you have some really strugglers that are on the low side or high side, and you cut those three names out (BS9)

This buy-side actor, aiming to reduce the complexity of the informational signal he receives, treats, in effect, the different predictions as if they belong to a normal distribution in which the more frequently appearing observations and those that are closer to the mean are more

trustworthy. This practice has the unintended consequence of amplifying the impact of the average consensus number and the opinions associated with it. As such, this calculative practice both strengthens a social order, as it reinforces the average consensus number, and triages different actors, assigning their predictions different degrees of validity, thus contributing to heterogeneity and classification of different sub-groups in the field. This shows not only that economic practices have a social character, but that social processes such as filtering out heterodox analysts, have an economic/calculative underpinning.

Social norms around consensus numbers

Consensus numbers are not only regarded as important indicators, but also the practices that are based on them (such as deconstructing the consensus along normal distribution parameters) serve to further enshrine consensus numbers as ubiquitous anchor points for those who seek to interpret markets. This causes many on both the sell-side and the buy-side, to be nervous about departing from consensus:

[Y]ou need to be in within 5 or 10% consensus. [...] you don't want to be that analyst who's got your head way above the parapet, [...] you've only got so many bullets that you can make these bold calls and you made up one last year and it didn't work out. So, you're like, f***, I'm not going to do that again, I'm going to stay inside consensus. (BS42)

In the quote above, which is indicative of many of our interviewees, the respondent frames the consensus numbers as a possible shelter from being judged negatively by their sub-group peers and by the broader field. A sell-side analyst expressed this view more succinctly: 'if you're with consensus and you're wrong it's fine because you're with consensus' (SS36). In general, these two quotes indicate the operationalization of the normative demand from analysts to avoid erroneous predictions.

This power of consensus numbers is such that those who try to diverge from them often find themselves under social pressure to align with consensus over the long term:

Then there's the really annoying conversations that we have with people, and they'll be like, "You are 5% blah, blah, blah, above consensus in 3 years." (BS42)

Here, the buy-side analyst is criticizing the type of argument he frequently heard from investors who challenge his views on the basis of divergence from consensus numbers. The quote above implies frustration with the oversimplification that consensus-led discourse is imposing.

The demands to align with consensus numbers were identifiable from a wide array of practices in our interview data. One's own judgment and professionalism or those of other actors are scrutinized using consensus numbers as a benchmark and as a basis for interrogation. For example, the alignment of a model's results with consensus numbers is regarded as an indication of the validity of models and as a proxy for the quality of the analyst:

I used to go pick up peoples' [sell-side] models and tell them where they were wrong when they were too far off consensus (BS10)

Such belief that compliance with consensus numbers is indicative of high-quality predictions is reflected even more frequently, in our interviews, when both buy-side and sell-side actors turn this normative demand on themselves. Interviewees frequently described a common practice whereby they questioned their own predictions when their calculations diverged from consensus numbers:

[Y]ou know just kind of checking because I thought that I was below consensus meaningfully. [...] so I like, "Damn what am I, are you seeing something here because you know," [...] is there a fundamental operating issue that's driving that that I'm missing? (BS17)

This quote in particular is suggestive of a connection between consensus numbers and herding, that is deeper than currently suggested by literature on the topic. While the literature finds that predictions by high-status actors tend to be followed (De Bondt and Forbes 1999), here we see that the average number itself also motivates analysts to recheck and potentially alter their calculations so that their predictions edge closer to it.

One common reaction to this ubiquity was to try and ignore consensus numbers, at least when preparing one's predictions. Actors might try to avoid looking at the numbers until after they have established their view, as the following buy-side analyst explains: 'I will not look at the consensus for that number at all until I've done all that modelling' (BS42). However, the most common refrain from interviewees was to express frustration with consensus numbers while adhering closely to them nonetheless.

Divergence from consensus numbers

The previous sub-section illustrated the norms that members of the field associate with consensus numbers, treating the numbers both as a given fact and as a boundary within which predictions are 'safe'. Equally, our data also revealed that, in a social field that rewards alpha generation and distinctiveness, heterogeneity was extolled as a virtue by actors who saw diverging from consensus numbers as beneficial.

Divergence from consensus as a signal of excellence. While some of the interviewees see consensus numbers as representative of the market, others see them more disparagingly as reflecting a hypothetical average investor:

When I think about the average investor I think about somebody who knows the story, who probably hasn't looked at it since the earnings call, and somebody who would probably need, I don't know 15, 20 minutes to get up to speed on the name. So, I think of an average investor, as the consensus. (SS18)

Relatedly, ambitious sell-side and buy-side actors wish to distinguish themselves from such ‘run of the mill’ investors, aiming to affirm the field position of their sub-group. This self-styled ‘investment elite’ tend to see consensus numbers less as a safe haven and more as a starting point in a process of devising a differentiated opinion about market prices.

Q: Why do you care about the consensus?

A: I think you need to know why you're different. (SS15)

Explaining the rationale behind one’s divergence from consensus is, we were told frequently, a good way to communicate convincingly with potential buy-side clients:

I think understanding why they're [the consensus estimate] too high and what risk that poses in the near term can still be important. Then you can communicate that to clients, "Hey, I think Moody's estimates need to come down because I think people are still too high on their leverage loads and structured finance estimates. (SS15)

In this quote, the aggregate nature of consensus numbers and their presumed representation of the market provide a basis for the analyst to express their opinion (“I think people are still too high”). Using divergence from consensus numbers as a way to demonstrate superior analytical and predictive capabilities in relation to others was a strong theme among the interviewees, on both the sell-side and buy-side, as the following representative quotes illustrate:

So, a big value add that I can give to [the fund managers] is saying that ‘this is what consensus number is, I think that there’s no way they’re going to hit this. Consensus estimates have to come down on this name’. Then I think that really does drive our investment decisions (BS9)

I’ve been trying not to look at [consensus numbers]... [W]hy does anyone on the buy side want to read something that a young analyst has just copied from the street? Shouldn’t I be the one setting the numbers, shouldn’t I be the one thinking about how the growth rates are? (SS18)

I think a better analyst who has different ideas from consensus can generate alpha. (SS36)

A fresh well thought out estimate is the most important thing. Especially if it ends up being out of consensus. (SS27)

Signaling heterogeneity through relative positioning is a hallmark of social fields, but it also indicates heterogeneity in the practices associated with the ‘rules of the game’. For many sell-side analysts, the right choice under most circumstances, our findings indicate, is to agree with consensus numbers. However, for a distinct minority, diverging from consensus numbers and developing an adequate interpretation for this divergence is regarded as a preferred route of action. Thus, the field’s ‘rules of the game’ do not call for accuracy, but for a positional choice in relation to the prevailing view: the safety of complying with the consensus, or the risk and heightened attention that comes with challenging it.

Criticisms of consensus numbers. Along with the strong reliance on consensus numbers, the interviewees also criticized them. One key criticism we heard was that analysts don’t update their earnings forecasts on a timely enough basis, either through laziness or due to manpower issues:

Usually every analyst is at least updating between quarters from their earnings releases. But let's say between quarters, if there was a material impact that changed, some analysts won't update their numbers until they're like, "Well, I'll just wait until earning season." Then the consensus number up there is really kind of skewed because let's say half the analysts have updated, half haven't. [...] They just don't have the resources. Your sell-side analyst maybe is covering like 50 names or something and doesn't have a team. Maybe it's just one guy or something. (BS9)

This buy-side actor laments the quality of the overall aggregate figure, but does imply that there will be some good analysts out there who produce timely, more robust estimates. Also, here we see consensus numbers as a triaging device that allows actors to further distinguish sub-groups of analysts who are better resourced and focused from those who are struggling to offer sufficient coverage for whatever reason.

Although it is tempting to suggest that this heterogeneity was closely coupled with the prestige of firms or tenure, as the literature does, the relationship with consensus is multifaceted. Those pursuing different investment strategies might have a different need to anchor on consensus. For example, we were told that generalists tend to rely more on consensus numbers:

Generalist money in the space, I mean the guys that aren't really doing the detailed independent work. The guys that are relying on the sell-side on consensus numbers to drive their valuation (BS16)

Those pursuing more generalist research strategies have more need of the sell-side and, by extension, rely more on consensus numbers too. Equally, there were temporal elements to the attention paid to consensus numbers, with some interviewees indicating that consensus was more robust after a certain period of time:

I would say probably at 12-month period is where you feel a higher level of comfort on consensus numbers. (BS16)

The diverging patterns of reactions to consensus numbers may be understood as different interpretations of the rules of the game in the field. As suggested in our theory-building section, fields should be understood as arenas where actors aim to improve their situation using whatever resources they perceive that they have. Hence, both the analysts who 'follow' consensus numbers and those who challenge consensus numbers follow the rules of the game, as the relevant 'rule' here is to become a more successful and more prestigious sell-side analyst. The differentiating factor is the type of resources the followers and challengers assume they have. In other words, actors work within the realm of what they perceive as possible, having internalized the structures of the surrounding field (Bourdieu and Wacquant 1992). Our research adds a deeper understanding to existing findings in the analyst literature that indicate sell-side analysts who have a higher status or are more courageous and want to improve their situation by gaining more attention are more likely to challenge the consensus

(Kadous, Mercer and Thayer 2009; Yin and Zhang 2014). In contrast, others who see the best course of action as not attracting attention, tend to comply with these numbers.

In summary, those seeking to produce either a more differentiated opinion or distinct investment thesis relied heavily on consensus numbers as a benchmark for the extent to which they had succeeded in such an endeavor. In the following discussion section, we will reflect upon how our findings around social inertia and the push and pull of consensus numbers lead us to new conceptualizations for the persistence of equity analysts in financial markets.

V. DISCUSSION AND CONCLUSION

This study reports on an in-depth field examination of sell-side analysts, their interactions with the buy-side, and the perceptions held by these two groups. Drawing on 70 interviews with key sell-side and buy-side actors in the US and the UK, we motivated our research questions and framed our findings using field theory (Bourdieu and Wacquant 1992; Fligstein and McAdam 2012). In contrast with much prior literature on analysts which adopts an economic framing, we chose to study analysts using a broader sociological approach. This has enabled us to explore a number of important aspects of analyst behavior that have hitherto been paid insufficient attention.

Specifically, we suggest a number of contributions to the literature on sell-side analysts and on the working of capital markets more broadly. In contrast to the dominant, information brokerage thesis that dominates conventional wisdom on analysts (Bradshaw, Ertimur and O'Brien 2017), we show that sell-side analysts continue to play a central role in the field of investment advice, not only because they may provide useful information to investors, but

also because of the structure of the field in which they operate. In other words, inter-institutional economic dependencies and inter-personal ties support and protect the role of sell-side analysts, to some extent irrespective of whether they provide useful information to investors.

Professional relations in the field of investment advice are embedded in social ties that accrete slowly and span entire careers. As such, buy-side actors are often reluctant to replace their sell-side analysts, even when the economic case for doing so might be strong. This social structure serves as a substrate for the establishment, at the field-level, of what we label here as social inertia. This social inertia is also supported by the notion, held by many on both the buy-side and the sell-side, that the sell-side's main role is not necessarily to provide information or investment insights, but to generate investment banking business opportunities.

To stress, this observed social inertia is not indicative of laziness so much as it is a result of path dependency. The reproduction of existing social structures is less about lethargy and more about the purposeful social action (Fligstein and McAdam 2012) of actors who have to balance competing pressures. Moreover, disrupting existing webs of relationships that are 'habitual' and 'sticky' is hard to do because this requires dislodging the habits and routines of other actors in the field, which we were told was not straightforward. In this respect, the field of investment advice is very much like other fields, where certain cultural norms (Rivera 2012) and social bonds (Spence and Carter 2014) act simultaneously as important drivers of stability and barriers to change and innovation. This inertia leads to a higher tolerance for those analysts who are perceived as offering limited value in terms of research insights.

Based on the infrastructure of long-term and resilient social ties, our findings on consensus-related practices provide a different understanding of the social forces that govern the content and quality of sell-side analysts' outputs and may also shed light on phenomena such as herding and boldness. Boldness among equity analysts - which is captured in the literature by examining analysts who differ significantly from consensus numbers - and herding - which captures compliance with such numbers - can also be related to analysts' jockeying for advantageous field position. Distancing oneself from consensus via bold forecasts is a means of identifying with a self-styled elite of analysts although the majority end up converging with consensus numbers due to the strength of the social norms that govern behavior in the field. As with inertia, the conservatism that many analysts exhibit in this regard is partly a function of habit and routine, but in many instances is a purposeful act, the product of a careful consideration of the penalties that might accrue should divergence from consensus turn out to be the wrong call.

Our findings throw into relief a social field that is more complicated and more riven by internal divisions than has hitherto been appreciated. On this basis, we can offer a starting point for developing a field-level theory of financial analysts that takes explicit account of the social forces that govern economic behavior (Bourdieu 2005). Future research could explore these social forces further along a number of axes. Firstly, in terms of social inertia, researchers could explore how social inertia-related factors might come into conflict with performance-based pressures from other actors. For example, a number of our buy-side interviewees expressed frustration that there are so many sell-side analysts that they perceive add little to no value. We offer explanations here for why this is the case, but more focused studies looking at situations where research insights are sacrificed in favour of maintaining existing social ties could document in greater detail how these processes are enacted on the

ground. Secondly, although not the main focus of our study, it is noteworthy that our sample of 70 buy-side and sell-side interviews included only 14 women. Future studies could explore how processes of social inertia actively reproduce what is clearly a male-dominated arena. Thirdly, with the increasing discourse around how technology is disrupting various economic fields and displacing traditional job categories (Susskind 2020), it would be interesting to know to what extent the social inertia characteristic of the field of investment advice is able to protect analysts from the onslaught of AI.

Fourthly, more work drawing attention to the mismatch over perceptions of what sell-side analysts do versus what they are actually valued for would be worthwhile. Brown, Call, Clement and Sharp (2016) have started to debunk the notion that analysts are valued for their stock recommendations, and we have sought to provide additional insights here into the chasm between the ostensive and actual dimensions of analyst work, between the aspirational and real elements of what they do (Morales and Lambert 2013), but future studies could explore how the sell-side and the buy-side might both be complicit in perpetuating the myth of the trusted investment consigliere. From the sell-side's perspective, this presents them in a favorable light and is perhaps a helpful fig leaf for the questionable investment banking work that pays many of their bills; from the buy-side's perspective, such a narrative perhaps allows the buy-side to project a signal to their own institutional clients that they are taking advice from the best and the brightest out there in the stewardship of their clients' money.

Finally, although difficult to corroborate empirically by the present study, *prima facie* it would appear that there *are* analysts out there who are better than others at providing differentiated opinions and that they are in a distinct minority. Institutional Investor all-star ranking surveys point towards this, but such surveys are problematic and noisy measures of

research ability (Paik, Pollock, Boivie, Lange and Lee 2022). Future research could explore other ways of mapping the field of sell-side analysts according to their various attributes, services, clientele, experience, value, etc. The potential sources of heterogeneity are, we suspect, significantly more extensive than extant research has appreciated.

The study is not without limitations. First, our research aims to capture a wider conceptual and empirical picture than is currently captured in the academic literature on equity analysts. However, while we believe we do expand the horizons of this literature, we did not examine directly the relations between analysts, whether on the sell-side or the buy-side, and between corporate managers, although the interactions between these groups would clearly benefit from greater empirical and conceptual exploration. Second, we based our results on the UK and the US, whose markets might not be representative. In particular, MiFID II regulation is having an impact on Europe and elsewhere that was not fully picked up by the present study and which may have different effects on the analyst field in the European context (see Lourie, Shanthikumar and Yoo 2023). Third, our sampling also privileged the financial centers of New York, Chicago and London and our analysis focused on what was common to, rather than distinct in, these locales. However, previous research has shown that different norms, practices and values can be identified even when comparing financial centers within the same country (Lounsbury 2007). Future studies undertaken in different locations that explicitly seek to highlight practice variation would be able to ascertain to what extent our insights are generalizable or not.

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Tables

Table 1 – Interview Details

Interviewee #	Location	Date	BS/SS
1. SS1	Chicago	April 2019	SS
2. BS2	Chicago	April 2019	BS (formerly SS)
3. BS3	Chicago	April 2019	BS
4. BS4	Chicago	April 2019	BS (formerly SS)
5. BS5	Chicago	April 2019	BS
6. BS6	Chicago	April 2019	BS
7. BS7	Chicago	April 2019	BS
8. BS8	Chicago	April 2019	BS (formerly SS)
9. BS9	Chicago	April 2019	BS (formerly SS)
10. BS10	Chicago	April 2019	BS
11. BS11	Chicago	April 2019	BS
12. SS12	Chicago	April 2019	SS
13. BS13	Chicago	April 2019	BS
14. SS14	Chicago	April 2019	SS
15. SS15	Chicago	April 2019	SS
16. BS16	Chicago	April 2019	BS
17. BS17	Chicago	April 2019	BS
18. SS18	Chicago	April 2019	SS
19. BS19	Chicago	April 2019	BS
20. BS20	Chicago	April 2019	BS
21. SS21	NYC	June 2019	SS
22. SS22	NYC	June 2019	SS
23. SS23	NYC	June 2019	SS
24. BS24	NYC	June 2019	BS
25. SS25	NYC	June 2019	SS (formerly BS)
26. SS26	NYC	June 2019	SS
27. SS27	NYC	June 2019	SS
28. BS28	NYC	June 2019	SS
29. SS29	NYC	June 2019	SS
30. BS30	NYC	June 2019	BS
31. BS31	NYC	June 2019	BS
32. SS32	London	July 2019	SS
33. BS33	London	July 2019	BS
34. BS34	London	July 2019	BS
35. BS35	London	July 2019	BS
36. SS36	London	July 2019	SS (formerly BS)
37. SS37	London	July 2019	SS

38. BS38	London	July 2019	BS
39. SS39	London	July 2019	SS (formerly BS)
40. BS40	London	July 2019	BS (formerly SS)
41. BS41	London	July 2019	BS
42. BS42	London	July 2019	BS
43. BS43	London	July 2019	BS
44. SS44	London	July 2019	SS
45. SS45	London	July 2019	SS
46. BS46	London	July 2019	BS (formerly SS)
47. SS47	London	July 2019	SS
48. BS48	London	July 2019	BS
49. SS49	London	July 2019	SS
50. SS50	London	August 2019	SS
51. BS51	London	July 2019	BS
52. SS52	London	April 2019	SS
53. SS53	London	May 2019	SS (formerly BS)
54. BS54	London	April 2019	BS (formerly SS)
55. BS55	London	April 2019	BS
56. BS40	London	March 2021	BS (formerly SS)
57. BS56	London	March 2021	BS
58. SS45	London	March 2021	SS
59. SS37	London	March 2021	SS
60. SS39	London	March 2021	SS
61. BS57	London	March 2021	BS
62. BS58	London	March 2021	BS
63. BS59	London	March 2021	BS
64. BS60	London	March 2021	BS
65. SS61	London	March 2021	SS
66. BS48	London	March 2021	BS
67. FJ62	London	April 2021	FJ (financial journalist)
68. BS63	London	April 2021	BS
69. BS64	London	May 2021	BS
70. SS65	NYC	June 2019	SS

Table 2 – Data Analysis Process

1 st Order Codes	1 st Order Aggregates	2 nd Order Conceptual Theme	3 rd Order Conceptual Themes
<ul style="list-style-type: none"> Buy Side and SS travelling together, hanging out SS paid too much/ not providing enough value but still employed 	Long-term interpersonal social Ties		
<ul style="list-style-type: none"> BS and SS – ‘he’s got a family’, ‘you can’t cut them to zero’ BS and SS – meals together sports event BS and SS – ‘talking shop’ Male-dominated field BS and SS – gifts Continuous coverage is important, regardless of its quality SS employed to generate corporate finance business (BS interviewees) SS employed to maintain business ties with investment banks: ‘promote stocks’, ‘get capital inflows’ (BS interviewees) SS employed to generate trading fees, regardless of quality of analysis SS revenue based on ‘banking’ (SS interviewees) SS research is part of ‘package’ of services Short-term investors (e.g. hedge funds) pay large part of commissions and push SS to produce less interpretative research Ignorance why SS are still employed due to organizational complexity 	<p>Multiplex social ties (professional and social)</p> <p>Reciprocal relations</p> <p>Cultural matching</p>	‘Sticky’ social ties between BS and SS	Field-level social inertia
<p>Institutional and inter-institutional pressures to keep existing SS-BS professional ties</p> <p>Cognitive inertia</p>	Interdependencies between SS, BS and covered companies contribute to reluctance to remove or replace underperforming SS analysts.		
<ul style="list-style-type: none"> Validating forecasts vis-à-vis consensus numbers 	Consensus numbers as representations of ‘the market’		Field-level heterogeneity
<ul style="list-style-type: none"> Using consensus numbers as starting points or raw data when calculating forecasts Relying on consensus numbers psychologically Consensus numbers criticized less than individual forecasts ‘Cleaning’ forecasts in relation to consensus numbers 	Consensus numbers as hidden, taken for granted infrastructure of forecasting work	Social norms around consensus numbers	
<ul style="list-style-type: none"> BS scrutinizing SS quality using consensus numbers Investors demand explanations when BS differentiate from consensus numbers Higher visibility, and potential risk, to SS who deviate from consensus numbers 	Practices that indicate of SS motivations to comply with consensus numbers		
<ul style="list-style-type: none"> Consensus number represent the view of the ‘average investor’ (SS) Explaining why SS differ from consensus is desirable Differing from consensus distinguishes better SS from others 	Differing from consensus number as a sign of (actual or aspired) excellence among SS	Differing from consensus numbers signifies a self-prescribed and recognizable ‘elite’ among SS	
<ul style="list-style-type: none"> Consensus numbers may not be up-to-date Generalist BS rely more on consensus numbers 	Criticisms of the validity and reliability of consensus numbers and actors who rely on them		