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Information about bank intangibles, analyst information intermediation, and the role of knowledge and social forces in the 'market for information'

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ABSTRACT

Although developments in the sell-side analyst literature have revealed the role of intellectual capital (IC) in analysts' work, the whole information intermediation progress of IC remains a "black box". This paper develops an analyst information intermediation model, illustrating how 'soft' information changes through analyst acquisition, processing and disclosure of information. Bourdieu's ideas of habitus, field and capital are used to develop our explanation of the analyst information intermediation model. We argue that the combination of empirical evidence and theoretical explanation provides a new and more comprehensive way to improve understanding of the role of analysts within knowledge and social contexts.

1. Introduction

Sell-side analysts, as one of the most important groups of capital market participants, have received attention from academic research for several decades. Acting as intermediaries, sell-side analysts receive and process information, and then pass it along to fund managers (FMs) and other investors. Despite substantial evidence supporting the argument that analysts' work can help to improve market efficiency and affect investors' decision making (e.g., Healy & Palepu, 2001), there is considerable academic literature showing that the work of analysts appears to be somehow subjective and biased (Imam & Spence, 2016; O'Brien et al., 2005). This paradox, to a large extent, is due to the limited understanding of sell-side analysts' role in capital markets. Understanding analysts' activities and how they acquire, interpret and communicate value-relevant information is of significant importance to improve our understanding of how capital markets function (Barker & Imam, 2008; Bradshaw, 2011; Imam & Spence, 2016).

Academic literature on market participants, such as financial analysts and FMs, has generally been based on traditional theory or behavioural finance, with focus of the input and outcome of their decision making. This, however, fails to explain what these market participants actually do in practice and how they add value to the flow of information in capital markets (Taffler et al., 2017). Therefore, there has been an increasing call for using a sociological perspective (e.g., Holland et al., 2012; Imam et al., 2008; Imam & Spence, 2016; Taffler et al. 2017). Hirshleifer (2015) argues that there is a need to move from behavioural finance to social finance, including social norms in the study of financial behaviours. Some studies have investigated decision making of FMs (e.g., Barker

Abbreviations: IC, intellectual capital; FM, fund manager; MFI, market for information; HC, human capital; SC, structural capital; RC, relational capital

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et al., 2012; Eshraghi & Taffler, 2015; Holland et al. 2012; Taffler et al. 2017) and analysts (e.g., Abhayawansa et al., 2015; Brown et al., 2015; Imam & Spence, 2016) from such a perspective, but evidence on how analysts use information in their decision making process is limited. The processes of how analysts work remain to a large extent a "black box" (Bradshaw, 2011; Brown et al. 2015). There is no integrated model revealing how sell-side analysts play a role in the process of information flows between companies and investors in the market.

This paper seeks to fill this gap by developing a model of analyst information intermediation, set in the contexts of analysts' parent firms and the wider "market for information" (MFI) (Barker, 1998). We aim to unpack the "black box" of sell-side analysts' work by exploring how analysts in the banking industry acquire, interpret and report 'soft' information about bank intangibles in their decision making process. By so doing, this paper attempts to improve the understanding of financial analysts' engagement with useful information in the MFI. We focus particularly on analysts' usage of 'soft' information because academic research in this area from a sociological perspective is particularly rare.

We conduct interviews with twenty six bank managers and bank analysts in the UK and documentary analysis of analyst reports produced by some of the interviewees. Based on interview data, a model of analyst information intermediation is developed to explore the wider structures and processes in the MFI and how they relate to analysts and their intermediary role between companies (banks), FMs and markets. In this paper, empirical evidence (including interviews and content analysis of analyst reports) and theoretical analysis play a combined and active role in explaining the developed model. It contributes to knowledge of and literature on market participants' decision making in several ways.

First, traditional literature on sell-side analysts focuses mainly on analysts' work on earnings forecast and stock recommendation, and limited attention has been paid to their role as information intermediaries. As a result, the work of analysts remains a "black box" in academic literature. Several studies have peeked into this "black box" from different aspects, such as the inputs analysts use as the basis for their decisions (e.g., Brown et al. 2015), the usage of information in their valuation models (e.g., Abhayawansa et al. 2015; Imam et al. 2008) and the outputs of analysts' decision making (e.g., Abhayawansa et al., 2018). However, there is no integrated model revealing the role of sell-side analysts in the process of information flowing from companies to investors. This paper aims to improve our understanding of sell-side analysts' work in the MFI by developing a model of the information intermediation role of analysts through theorising empirical data.

Second, we focus on the role of 'soft' information and chose the banking sector, for which very limited empirical work has been done previously, as the research context. Empirical evidence shows that accounting information has dominant impact on analysts' overall assessment of a company, but non-accounting information is also used in analysts' decision making in the way of contextualising and adding value to accounting data (e.g., Barker & Imam, 2008). Non-accounting information, such as some information about intangibles, may not be price-sensitive information based on conventional theory; yet it is still important, and even more important in certain contexts than accounting or tangible information, in affecting investment decision making (e.g., Chen et al., 2014). This paper, therefore, seeks to explore how sell-side analysts make sense of soft information and how the contextual factors in the MFI affect their usage of such information. Investigating how the same type of 'soft' information changes during the process of analyst research, analysis and reporting activities, provides novel insight into the analyst information intermediation role. Based on content analysis of analyst reports, Abhayawansa et al. (2018) find that the relevance of intellectual capital (IC) elements in the eyes of analysts is conditional on the context. They argue that the identities of IC elements are variable, dynamic and transformative, and the role of IC needs to be understood in relation to different market actors who mobilise IC elements. Their findings challenge the conventional IC research that models IC and categorises IC statistically. However, their findings are based entirely on the analyst reports. Our paper shows how IC information changes from the original disclosures provided by companies to that interpreted and reported by analysts, providing further evidence supporting Abhayawansa et al.'s (2018) arguments. The banking sector is very knowledge-intensive, and market failures in this sector highlight the importance of understanding how soft information is used by market participants.

Third, this paper strengthens the extant literature by further exploring the impact of social and knowledge contextual factors on the process of making sense of IC information by analysts, based on the theoretical work of Bourdieu (1990). Imam and Spence (2016) have also used Bourdieu's concepts and theoretical arguments to explore the nature of the work that analysts do in the context of the MFI. Their study focuses on the interaction of sell-side analysts and their clients and looks at general information communicated between the two types of market participants. They call for further research that explores how people actually behave and interact with each other using sociological inquiry. Our paper provides further evidence on the interaction of bank managers and sell-side analysts, with special emphasis on IC information and paying more attention to the role of knowledge and social forces in the information intermediation process.

The paper is structured as follows. Section Two reviews relevant theory and literature. Section Three summarises the data collection and data analysis processes of the paper. Section Four presents empirical results and explores the information intermediation role of analysts through their company research activities, their internal analysis and information production processes, and their external reporting and advisory activities. Social and economic literature and theory are used to explain the empirical model. Conclusions are discussed in Section Five.

2. Current state of analyst research and the theoretical framework

Although there have been several decades of research on sell-side analysts, the development appears to be uneven. Many of these studies focus narrowly on analysts' output and the statistical properties of their forecasts (Schipper, 1991; Bradshaw, 2011), with limited attention paid to how analysts process different types of information. Schipper (1991) reviews the literature on analysts'