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Transparency in an opaque market: Evaluative frictions between "thick" valuation and "thin" price data in the art market

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ABSTRACT

This paper highlights the paradoxical effects of increased price data in markets with difficult-to-value products where non-price factors are highly relevant. In the fine art market, the growth of market information providers facilitated access to auction price data, beneficial in a market noted for its clandestine dealings. Drawing from inductive ethnographic research, the paper notes complex outcomes from increased data availability, as auction prices can be seen as an indicator of an artwork's value. The findings deconstruct factors of supply, demand and multiple prices in the art market, highlighting important non-price factors in valuation, which complicate provider claims of art market transparency. Unpacking the process through which expert "thick" valuation transforms raw price data into comparables and then valuations helps to explain continuing differences in valuation, with buyers prone to understand past prices as market or reference prices, rather than raw materials for valuation that are adjusted for complexity. This contributes to an understanding of both advantages and predictable problems from increased price data in markets that contain substantial qualitative and non-numerical data, as evaluative frictions can occur even in the absence of clearly defined alternative valuation methods. This develops productive linkages between critical transparency and the valuation and evaluation research.

> "The basic idea of artnet was to bring transparency to the art world, which we did by taking that data — from all the auction houses — and entering it into a single database. People could then subscribe to this, and the auction results would be sent out to them via fax machine"
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> —artnet CEO Jacob Pabst (Art Media Agency, 2013).

What happens to valuation when past price data becomes easier to access in markets where goods are difficult to value? As seen in the goals noted by artnet's CEO above, this might be framed in terms of market transparency, with the common assumption of positive impacts from increased market information. In contrast, critical research in accounting problematizes the quest for transparency, highlighting productive tensions including the practical uses of opacity (Strathern, 2000) and unproblematic use of flawed measures (Dambrin & Robson, 2011). We find narrow indicators with complicated relationships to the object of interest (Robson, 1992; Strathern, 2000; Vollmer, 2007), as well as situations where appropriately flexible use of incomplete indicators becomes constrained over time (Jordan & Messner, 2012). Nonetheless, we apparently believe in transparency, despite its potential to be complex or misleading (Roberts, 2009; Strathern, 2000).

A set of past price data would seem to allow something like "blue book" valuation or an indicator of an object's value based on past prices of similar items, enhancing market transparency. But the numerous cautions about transparency certainly apply in situations where price data is only one factor in valuation, and where expertise is needed to interpret and integrate the various forms of information. Even for expert appraisers, valuation can be exceedingly difficult in markets where goods are heterogeneous and where few comparables exist, such as intangibles or difficult-to-value Level 2 and Level 3 assets, seen in research that problematizes fair value accounting (Bromwich, 2007; Power, 2010). For this reason, critical work on transparency (Best, 2005; Henriques, 2007; Roberts, 2009; Strathern, 2000) and numerical indicators more generally (Robson, 1992; Vollmer, 2007) has much to say when it comes to understanding valuation and evaluation, an area where we see ongoing interest in identification of key processes, outcomes and operations (Lamont, 2012; Zuckerman, 2012). While there can be excellent uses of incomplete, single-factor or

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otherwise "thin" data and indicators, helping to save time, cut costs or cover more ground, critical transparency research identifies potential disadvantages, from loss of flexibility (Jordan & Messner, 2012) to new types of visibility and concealment (Strathern, 2000). These cautions are particularly appropriate when it comes to experts and non-experts in markets and their valuation and evaluation methods. Problems can arise if usage differs significantly among the different groups (Coleman & Eccles, 1998; Margolis, 1996), or if more narrow indicators are misleading, such as when past prices provide benchmarks that require consideration of important qualitative factors (Beunza & Garud, 2007; Tan, 2014). When it comes to valuation, differences could be more extreme if key factors remain difficult for non-experts to understand while past prices are made more accessible. Unpacking the necessary elements of full valuation would be one way to see how "thin" data and incomplete indicators compare, for example, when such indicators can substitute for expertise.

The fine art market provides an empirical context to see the impacts of increasing past price data in a market for difficult-to-value objects. Art market information services such as artnet have become important new institutions, disseminating previously elusive information about past prices of artwork at auction (Pardo-Guerra, 2011). While there is presently no way to automatically appraise an artwork online, past price data can provide users with a useful ballpark impression of value, allowing us to see how buyers and experts use auction price data. Underlying this development is a quest for numbers from within the traditional art market, a complex, opaque area with routine valuation. Demand for market information is also driven by a growing movement to establish artwork as a financial investment category, one that complies with financial market norms, such as the transparency and accountability demanded by investors (Coslor & Spaenjers, 2013). Traditional valuation methods in the art market are similar to those used in securities analysis (Beunza & Garud, 2007) and for valuing unique assets (Lepinay & Callon, 2009) or "singularities" (Karpik, 2010) because past price data is only one element in a "thick," multi-factor valuation method. Representing some 50–60% of sales, past prices at auction factor strongly into traditional valuation needs, as art is valued on the basis of comparable prices, mediated by factors including provenance and condition (Robertson, 2005; Velthuis, 2004, 2005). As will be explained further, the uniqueness attributes of fine art and inefficient market mean realized auction prices are not the same as "market prices."

This paper focuses on the pressures of transparency in the face of growing auction price data in the fine art market, undertaken within a larger project on the financialization of art. Through inductive ethnographic research on the high-end art market in New York and London from 2007 to 2009, I found that past prices provided by art market information services factored into valuation, as would be expected given traditional valuation methods. What is interesting is the way that expert (gallerist, market consultant, etc.) and buyer assessment strategies diverged, with buyers relying more heavily on auction price data, a problematic result given non-price factors, price dispersion and multiple prices. With growing auction price data heralded to increase transparency, the findings (1) deconstruct the factors of supply, demand and multiple prices in the art market, and (2) unpack the operations of "thick" valuation necessary to account for these complexities, where experts transform past prices into comparables and then valuations in a multi-stage process. The findings also (3) highlight the benefits and potential problems of more accessible auction price data, from increased buyer power to overreliance on "thin" price data, the latter furthering our understanding of the interrelationships between metrics and taste. This contributes a nuanced empirical understandings of valuation in an inefficient markets with multiple prices, highlighting the way that evaluative frictions between buyers and sellers can arise from increased price data alone, even without clearly defined alternative valuation methods. This shows the benefits of further dialogue between the critical transparency and emergent social studies of valuation and evaluation research.

1. Transparency and valuation

Transparency is defined as the ability to know market prices, supply and demand, and other features of a trade good (Law & Smullen, 2008), often with goals of market fairness and efficiency. Information asymmetry is a common explanation for benefits of transparency: if sellers know considerably more about the properties of their goods, buyers gain from more accessible market information, such as price data or "blue book" values. Though transparency is seen to have positive outcomes, it is also a complicated goal. Transparency efforts can unearth market complexity and have paradoxical outcomes, including decreased market liquidity, price volatility (Madhavan, Porter, & Weaver, 2005), and opposition to perceived loss of strategic trading advantage (Goltz & Schröder, 2010). As noted in the critical transparency research (Best, 2005; Henriques, 2007; Roberts, 2009; Strathern, 2000), transparency can be seen as a problematic form of accountability (Roberts, 2009), calling into question the ability to create reporting measures that could summarize complex and detailed information without compression issues (Stone, 2002; Vollmer, 2007) and perhaps leading us in problematic directions through the use of convenient but narrow measures (Strathern, 2000). These concerns also align with calls for further research into imperfect markets when it comes to fair value accounting (Bromwich, 2007; Power, 2010), such as issues of market complexity, multiple prices and measure reliability.

Critical transparency work has much to say when it comes to the problem of difficult-to-value goods, which complements growing work in the social studies of valuation and evaluation (Espeland & Sauder, 2007; Fourcade, 2011; Karpik, 2010; Lamont, 2012; Vollmer, Mennicken, & Preda, 2009; Zuckerman, 2012). This work provides nuanced understandings of calculation, valuation and evaluation as individuals, organizations and markets are subjected to new forms of numerical measurement, evaluation and audit (n.b. Power, 1999). For example, Lamont's review of the sociology of valuation highlights key sub-processes, including categorization, legitimation and "(e)valuation," and notes the need for additional work in this area (Lamont, 2012). Other researchers note valuation opportunism and entrepreneurship (Zuckerman, 2012). One important point to consider in valuation is issues of taste (Hennion, 2004), and the "attachments" that shape valuation in a significant way, for example, the "collective that provides a frame" for one's taste (Hennion, 2015, p. 137). From this, we can see how taste can be understood as reliant upon communities, material devices and other components of attachments that "redefine and reconfigure taste by their own elaborations" (Hennion, 2004, p. 137). This diverse area is also highly compatible with understanding accounting as a situated calculative practice (Chapman, Cooper, & Miller, 2009). Empirical case research in particular has the potential to unearth rich, on-the-ground understandings, for example, important cultural implications surrounding the techniques chosen for valuation (Fourcade, 2011), challenging the neutrality of calculations. Moreover, key factors that are not easily quantified are often neglected in models (Stone, 2002). Market knowledge is not always easily compressed: knowledge may be qualitative, longitudinal, or difficult to interpret without expert knowledge, particularly in situations of unique goods (Cattani, Dunbar, & Shapira, 2013) or "singularities" (Karpik, 2010), relating to data