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When accounts become information: A study of investors' ESG analysis practice

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Summary The present study investigates how accounts are identified as information. A precondition for the interpretation and use of information is that it is identified as potential information. How does this happen? Using the empirical case of investor analysts and environmental, social and governance (ESG) issues, the study finds that to be able to distinguish information from irrelevant accounts, the analysts specify what they want knowledge about, the epistemic object. In fact, how the epistemic object is defined strongly influences which accounts are regarded as information. Still, the linking between accounts and what they are believed to reflect requires an interpretation. This effort is particularly visible when the 'fit' is lacking. Studying and reflecting on their informing process, the analysts acquire knowledge of what is captured but should not be and what is not captured but should be. Hence, the identification of accounts is not only the story of how available accounts are identified as information but also of how information is identified in its absence.

Introduction

The present work seeks to extend our view of information and analysis models[1] by focusing on the input to models, the accounts[2] that are identified as information. Previous research in the area has investigated the role of "interpretative models" (Zuckerman, 2004), "classification systems" (Wijnberg, 2011) or "calculative frames" (Beunza & Garud, 2007). Thereby, it has emphasised that information is

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[1] There exists a rich vocabulary for describing analysis models. Because many of these terms are associated with certain theories, I simply use the more empirical word "model", also used by MacKenzie and Millo (2003). The epistemic practice literature (Kalthoff, 2005; Rheinberger, 1992a,b; Knorr Cetina, 1999) describes such models as consisting of "technology".

[2] I here deliberately use the notion of accounts to include a wide set of sources and forms, which may be perceived as information. Scott and Lyman (1968) define accounts as linguistic devices, statements, made by social actors to explain behaviour, whether one's own or that of others and whether the proximate cause for the statement arises from the actor him/herself or from someone else. Thereby accounts may take both oral and written forms.

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interpreted through the use of analysis models. Previous research has thus explained how information is interpreted. The present study builds on this insight but focuses on a precondition to this process. For information to be interpreted, it first has to be identified as information.

The present research is concerned with how accounts are identified as potential information. Without an understanding of such processes and mechanisms, information may easily be viewed as readily available and 'out there', although, empirically, what we identify as information both changes over time and varies among groups of users. The example of social and environmental accounts is an illustrative case in this sense, because it highlights variation in which accounts are identified as information. An increasing number of investor institutions are today taking social and environmental issues into account in their assessments of possible investments (Arjaliès, 2010; Bengtsson, 2008; Déjean, Gond, & Leca, 2004; Hendry, Sanderson, Barker, & Roberts, 2007). These institutions and their analysts represent a case where accounts that we at one time did not consider to be relevant information eventually become viewed as information.

Studying investor analysts of environmental social and governance (ESG) corporate performance, the present study aims to analyse the process through which accounts become identified as information by an analysis practice. It seeks to answer the research question: *how are accounts identified as information*? To analyse how investor analysts appropriate accounts of ESG performance as information, the study draws on work on epistemic practice within the science and technology literature. Specifically, I rely on Knorr Cetina's (1999) notion of "technology of representation" where actors through technology are able to achieve knowledge of things previously unknown and that are not present, the "epistemic object". In contrast to Callon's (1998) calculative agencies, Beunza and Garud's (2007) calculative frames and Miller and O'Leary's (2007) mediating instruments, the advantage of Knorr Cetina's (1999) work is that it clearly emphasises the input to the model. A calculation or analysis model needs some type of input to produce a result. Knorr Cetina describes types of relationships between the input, the model and thing we want to know about, the epistemic object. Her work helps us explain how certain input is chosen and put in relation to the epistemic object.

The analysis is based on empirical material such as interviews with the analysts of Nordic institutional investors and the ESG service providers they employ, as well as observations of these actors' practices and documents they use and produce. The analysis illustrates that what is regarded as information is structured by how the analysts define the epistemic object, what the analysts want to know about. While the model helps define the epistemic object, there are also other elements in the practice that determine what is an epistemic object. Thus, to understand how certain accounts become information, we need to study models and the practice context within which they are used.

Previous research on information and analysis practice

At a general level, previous research on information and analysis practice can be said to either focus on information as 'news', the sources of information or the models within which information is interpreted. Within traditional financial literature, information is described as the content of, for example, numbers. It is something that is new, produced, collected and available on a market (Gonedes, 1976). The main issues are access, diffusion and cost of these entities. For this purpose, the media's role is particularly important (e.g., Fang & Peress, 2009). Information in such studies may consist of news articles in widespread journals (Fang & Peress, 2009) or a news database such as the Dow Jones News Service archive (e.g., Engelberg, Reed, & Ringgenberg, 2012; Tetlock, 2011). Accounts are supposed to initiate responses when they are new; however, it is acknowledged that things are (incorrectly) responded to although they are not new (Tetlock, 2011).

In response to a traditional finance view of information, Zuckerman (2004), taking a sociological approach, emphasises the interpretation of information through "interpretative models". The interpretation may be problematic and differ among participants. The quantitative financial literature also recognises the possibility of different interpretations but explains it with variation in the traders' skill. Variation in skill is attributed to, for example, the ability to process information (Engelberg et al., 2012). In contrast, Zuckerman (2004) does not explain such differences with individuals' ability but argues that information may be less well processed if it is related to stocks that do not fit the prevailing system of classification.

Beunza and Garud (2007) refer to Zuckerman's (1999, 2004) approach as "analysts-as-critics". They criticise it for conceiving of analysts' work as simply classifying stocks into categories. Using a grounded theory approach and qualitative content analysis of selected analyst reports, Beunza and Garud (2007) instead find associations between categorisation, analogies and key metrics. They coin the term "calculative frames" to describe these. These frames are robust over time, leading to sustained controversies among analysts. Beunza and Garud (2007) thereby display a richer toolkit used by analysts than previous research. Though the "calculative frames" theorisation may be new to the analyst literature, there exist similar theoretical terms among the social studies of finance. For example, Callon (1998) proposes the term "calculative agencies" to describe a complex and collective practice dependent on tools and which involves disentanglement and framing. Studying customer analysis and calculation within a bank, Kalthoff (2005) instead conceives of activities of calculation as "epistemic practices".

While the above work shifts focus from individuals to the role of interpretative models or frames, it reveals little about the input to these models. A precondition for a model to function is that accounts exist and can inform the model's variables. As MacKenzie and Millo (2003) note, crucial to the Black—Scholes equation is that all the parameters involved, apart from volatility, can be determined empirically. Though MacKenzie and Millo (2003), like Callon (1998), are more concerned with the information the calculation itself produces. The result a calculation produces is potentially information to further users and may shape their behaviour and even the market resulting from these behaviours. It may also shape the behaviour of what/who they evaluate (e.g., Meyer, 1994). Though Beunza and Garud (2007) recognise that the calculative frames need information to operate, they still