

THE PURSUIT OF RELEVANCE

Johan Graaf



The Pursuit of Relevance

Studies on the Relationships between Accounting and Users

Johan Graaf

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ISBN: 978-91-7649-492-9

Printed in Sweden by Holmbergs, Malmö 2016
Distributor: Stockholm Business School

To Heidi

Acknowledgements

I have now been writing this book for five years – five years which, at the same time, strangely feel too long and too short. Writing a dissertation is indescribable and I am fortunate to have had a large and generous group of people contributing to my process in various ways.

First of all, thank you Matti and Roland for being my supervisors during this entire process. I owe you a lot. You have not only always taken the time to read and discuss my work but you have also been extraordinary as support in academia at large. PhD candidates easily find themselves being restricted by supervisors but you have always been optimistic and encouraging. My only regret is that I haven't always followed your advice closer or sooner. It would have saved me many headaches.

Writing a PhD in accounting at Stockholm Business School means, however, that one also has a large number of informal supervisors. I have received incredible insights and help from my colleagues during the years and this has been a great environment to start an academic career. You have helped me with everything from incomprehensible French philosophy, to making tedious accounting exercises interesting, and, sometimes, by just playing a few rounds of table tennis. Thank you all so much!

I want to give a special word of gratitude to Gustav for the insights I have gained from working with you. You have had a huge impact on both my research and teaching and I am very grateful to have had the opportunity to learn from you. Also a special thanks to Micke for always taking the time to read, discuss and help in the various struggles during PhD studies. Likewise, Johan Henningsson, Kenneth Fox and Hanna Silvola took the time to comment on this manuscript at various stages of my process and I highly appreciate the insights you provided. Thanks also Liesel and Sara for the endless discussions I've had with both of you. These have been essential for both expanding my thinking and coping with life as PhD candidate.

I have also learned a lot from all the analysts, brokers, managers and other practitioners who have taken the time to discuss accounting with me. Thank you for the insights you have provided and for inviting me to spend time in your everyday activities. Collecting empirics has been a highly rewarding part of my thesis work and I've had a lot of fun discussing with you. Also, thank you Stiftelsen Infina, Handelsbanken and Gålö Stiftelse for enabling me to collect empirics, attend PhD courses and present my research at various places. Your travel grants have had huge impact on my thesis.

The most influential people of all are, however, of course my family. Thank you Mom, Dad, Grandma and Mia for always offering to help and always having time to listen. You have supported me in your respective ways and it's difficult to put in words how much that has meant to me.

Finally, the biggest acknowledgment is to Heidi, to whom I am so indebted. Your patience and encouragement is incredible. I would not have finished this book without you and whatever I do in the future, I know it will be better because of you. Thank you!

Stockholm September 2016

Johan Graaf

List of papers

Paper I. Graaf, J. (2013) Colouring the Numbers: On the Role of Intellectual Capital in Financial Reporting

Published in *Journal of Intellectual Capital*, 2013, 14(3), pp. 376-394.

Earlier versions presented at: 8th interdisciplinary Workshop on “Intangibles, Intellectual Capital & Extra-Financial Information” Grenoble 2013; IFKAD-KCWS International Forum on Knowledge Assets Dynamics, Matera 2012; Nordic Workshop XVII in Management Accounting, Uppsala 2011.

Paper II. Graaf, J. (2016) Framing in formation: Investigating the face-to-face meetings of analysts and managers

Earlier versions presented at: European Accounting Association 30th Doctoral Colloquium in Accounting, Tartu 2014; Infina Research Foundation, Stockholm 2014.

Paper III. Graaf, J. (2016) Equity market interactions: Exploring the role performance of analysts at earnings presentations

In review for publication in journal.

Earlier versions presented at: Interdisciplinary Perspectives on Accounting Emerging Scholars’ Colloquium, Stockholm 2015; European Accounting Association 37th Annual Congress (Parallel Session), Glasgow 2015.

Paper IV. Graaf, J. & Johed, G. (2016) The equity broker’s dilemma: An ethnographic inquiry into reverse brokering

Earlier versions presented at: European Accounting Association 38th Annual Congress (Parallel Session with Discussant), Maastricht 2016; London School of Economics and Political Science, London 2016; 30th Interdisciplinary Perspectives on Accounting Conference, Stockholm 2015.

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Introduction

If ever a word in my vocabulary stood in need of a ten-thousand mile service 'relevance' is that word. [...] Often I have intended to explore just what this most useful concept implied. But somehow the pressure is too much for relevance to be taken out of service for a while; and so it continues, heavy with good associations and imprecision.

- Lord (1966, p. 6)

This dissertation investigates the relevance of accounting for users. Relevance is a key concept within accounting policy because it is believed essential for fulfilling the current objectives of financial reporting (IASB, 2010). Financial reports should provide decision-useful information and such usefulness is theorised as a combination of accounting being a faithful representation, and relevant to its users' decision-making (Kadous et al., 2012). Hence, whereas accountants traditionally have been concerned with the representational qualities of accounting (Alexander and Archer, 2003), relevance transcends the organisations in which accounting is produced. Relevance instead concerns questions on how the information later is used (Francis and Schipper, 1999; Kadous et al., 2012; Power, 2010) and standard-setters are therefore routinely collecting inputs from users in order to make accounting more relevant (IASB, 2015). In fact, the importance given to users' decision-making means that: "accounting policy simply has very little to do with [file-and-rank accountants] and their local conceptions of reliability in accounting" (Power, 2010, p. 207). Of all areas of social life, it is now capital providers—especially equity investors—that accounting aims to address (IASB, 2010).

Understanding relevance is important not least because its absence is commonly used as an argument to changing accounting and the organisations in which it operates (Barth et al., 2001; Francis and Schipper, 1999; Johnson and Kaplan, 1991; Lev and Zarowin, 1999). It is interesting to note that discussions on relevance—in numerous research fields and empirical contexts—generally concern the absence of relevance. Theoretical notions of relevance are not the same as the general use of the word (Gorayska and Lindsay, 1993), but its positive connotations, elusiveness, and

all-encompassing applicability lend relevance a certain level of indisputability. There is an abundance of relevance problems (Nicolai and Seidl, 2010), relevance gaps (Starkey and Madan, 2001), and relevance paradoxes (Bukh, 2003; Niss, 1994) but, above all, it is rather rare to hear calls for less relevance.

What does it mean then to claim that accounting is relevant or – more commonly – that it has lost relevance? When and how is accounting relevant to its users? The first problem regarding the indisputability of relevance is that we have limited insights into these questions (Hopwood, 2000; Robson and Young, 2009). Accounting scholars have acknowledged that relevance is surprisingly difficult to investigate (Kadous et al., 2012; McDonough and Shakespeare, 2015), and the most common approaches do not target it directly (Barth et al., 2001; Huang et al., 2016). Accounting users' decision-making is largely "hidden in a black-box" (Ramnath et al., 2008, p. 35), and these knowledge gaps also obfuscate the understanding of accounting and relevance. After reviewing studies of accounting and financial markets, Vollmer et al. (2009) even conclude that:

There is no empirically well-grounded understanding of the relationships that exist (or do not exist) between accounting, capital market structures and investment cultures. Accounting research has not produced much insight into the calculative practices of financial analysts and investors, and their uses of accounting concepts and figures in the production of corporate valuations (p. 627).

This empirical "blind-spot" (Vollmer et al., 2009) is the starting point for this dissertation. Relevance has become one key priority—possibly even *the* key priority (Erb and Pelger, 2015; Power, 2010)—of accounting standards, yet the empirical phenomena of relevance face limited academic scrutiny. Investigations to understand the role of accounting for users are thus repeatedly called for (Hopwood, 2009; Imam et al., 2008; Robson et al., 2010), both from sociological schools of thought (Vollmer et al., 2009) and economics-based scholars (Bradshaw, 2009; 2011). By following accounting and its users through four studies that target various elements of relevance, this dissertation thus theorises how the relationship between accounting and users plays out in practice.

Relevance is in many ways a promising concept to investigate because "[t]he issue of relevance raises fundamental questions about the nature and social role" (Starkey and Madan, 2001, p. 3) of things presumably of relevance to one another. Since even formal accounting users have different practices, decision-making, and information needs (Cascino et al., 2014), relevance is likely a complex and rich phenomenon in practice (Nicolai and Seidl, 2010). By targeting the numerous ways in which accounting is

relevant—or irrelevant—to its users, further insights may be gained concerning the roles of accounting in markets and society (Mennicken et al., 2008). However, the second main problem of relevance is that, despite the lacking insights into the activities of users, there are very precise theoretical definitions of what relevance should be. The dominant theoretical perspective in studies on accounting and markets (Kothari, 2001) have taken this possibly very broad phenomenon and instead suggested that the relationship between accounting and users is reduced to a certain practice of forecasting (Huang et al., 2016; Ramnath et al., 2008). Young (2006) explains that:

Little was known about the relationship(s) between users and financial statements [and] this ignorance was mitigated by models and normative assertions that could replace interactions with flesh and blood users (p. 581)

Although nuances exist in the ways relevance is conceptualised and investigated within accounting studies (for more details see the next chapter) these models and normative assertions are largely borrowed from financial economics. The move towards relevance is a symptom of financialisation (Power, 2010, 2012) and another indication that financial markets and financial theory are having an increasing societal influence (Engelen, 2008; Krippner, 2005; Preda, 2009a; Stenfors, 2014). In fact, the primacy given to accounting users seems largely ignored by the users themselves (Kadous et al., 2012). Standard-setters make considerable efforts in gaining the perspectives of users (IASB, 2015; Slack and Campbell, 2008), but when confronted with inconsistencies in accounting, even users are unable to “question the mythical imagery surrounding the ideal” (Durocher and Gendron, 2011, p. 253).

Acknowledging relevance as rhetoric in the course of financialization therefore also means reconsidering it as a uniformly desirable quality. Relevance is not only one of many possible qualities of accounting, but the current notion of relevance is also one of the numerous ways relevance may be conceptualised (Hjørland, 2010; Shwayder, 1968; Young, 2006). This is a key element in accounting policy which remains unexplored but is also a seemingly neutral—or even positive—quality which supports very specific ideas of how stock markets function and how accounting users behave. Hitherto, there are at least three broad issues with the dominant definition of relevance which, due to its insufficiency, also obfuscates current understanding of accounting, users, and financial markets.

First, users do not seem to perform valuations and initiate trades in the same ways as suggested by theories underlying relevance. Coleman (2014, p. 226) discusses this as a paradox of finance because there is an increasing gap between academic knowledge of users and the actual activities of users (also Hopwood, 2009). Coleman (2014) comes to a conclusion similar to that of

Holland (2006) in that the necessary information is not available and investment theories are too difficult to apply in practice. Instead, investors mainly rely on simpler valuation techniques (Barker, 1999b), their “gut-feeling” (Wahlström, 2010), and assessments of manager qualities (Almqvist and Henningsson, 2009; Holland, 2006; Holland and Doran, 1998). As such, if accounting has in fact influenced stock markets and equity investments, it is likely to take different forms than through the process of forecasting (Barker, 1998; Hägglund, 2000; Johed, 2007).

Second, detailed studies of accounting usage suggest that certain accounts seems to be relevant and useful for practitioners even without them leading to (investment) decisions being made (Barker et al., 2012). Face-to-face meetings with managers are, for instance, consistently ranked as users’ most important source of information (Brown et al., 2015; Marston, 2008), although the allowed information dissemination within such events is limited (Barker et al., 2012). Other information seems only to be relevant after iteration (Garfinkel, 2008), because already publically available information becomes relevant when voiced in other venues or by other people (Loh and Stulz, 2011; Stice, 1991). Conversely, information which is presumably highly representative for firm values is not influential for capital allocation at all (Abhayawansa et al., 2015; Bukh, 2003; Mouritsen, 2003). This is foremost exemplified in non-financial information, but also extends to accounting reports, which are commonly emphasised in relevance studies. In Hellman’s (1996) study on investment decisions, for instance, it is difficult to link such activity to the release of financial reports.

Finally—and conceptually most important—relevance is no longer theorised in relation to users (Leung, 2011). Although relevance commonly is defined in relation to something else (Gorayska and Lindsay, 1993), current notions of relevance in accounting studies claim that accounting is capable of being used. The concept of relevance overlooks the varied uses and users of accounting (Cascino et al., 2014) by identifying usefulness within numbers. The conceptual framework of IASB even clarifies claims that accounting should be “neutral” because it should also have an influence on behaviour (IASB, 2010). Consequently, relevance-as-quality follows a functionalist reasoning similar to “what gets measured gets managed” (Catasús et al., 2007) because the correct numbers are believed to initiate investment activity by themselves. Relevance is caught in a circular reasoning early criticised by Chambers (1993): if accounting is relevant, it is believed to be used but, at the same time, accounting is deemed relevant when used.

Aim and contributions

This dissertation aims to advance the understanding of accounting, users, and relevance by following sophisticated accounting users in their pursuit of relevance. By presenting four studies targeting different aspects of users' activities, this dissertation addresses the overall research question: how is accounting relevant to its users? This study therefore explores the practices by which accounting is made relevant, and relevance as a theoretical resource is here "taken out of service for a while" (Lord, 1966, p. 6). Instead, the dissertation reverses the critique voiced by Young (2006) because, when investigating "flesh and blood" users, relevance may be approached as an empirical phenomenon as well. By doing so, it makes the following theoretical and empirical contributions to the fields of accounting and finance.

First, this dissertation adds to studies on financial analysis by following the tradition of viewing accounting as a social and institutional practice (Hopwood, 1983; Miller, 1994). This means analysing the use of accounting within the particular setting of users and investigating how financial analysis is influenced by a particular social and organisational context (Hopwood, 2000; Robson et al., 2010; Vollmer et al., 2009). Conversely, investigating relevance means targeting practices which are not typically investigated in accounting studies. Hence, this dissertation also contributes to accounting studies more broadly by theorising the sociology of financial analysis (Imam et al., 2008; Imam and Spence, 2016; Tan, 2014). By contributing to this emerging field of research, the dissertation changes emphasis from questions on accounting production to those on its usage (Vollmer et al., 2009).

Second, the dissertation answers calls to combine studies of accounting with social studies of finance (Power, 2012; Vollmer et al., 2009) and thus contribute to the establishment of a larger platform of interdisciplinary market research. Foremost, by targeting the practices of financial analysis, this dissertation adds to knowledge concerning the roles of accounting in phenomena such as financialisation (Alvehus and Spicer, 2012). Accounting influences the people, organisations, and societies it supposedly represents (Hines, 1988) but questions remain regarding how it influence financial markets, the sphere which is supposed to influence all others (Fligstein and Goldstein, 2015). A study of relevance thereby contributes to studies on the role of accounting in creating markets and market participants (Attard, 2000; Miller and O'leary, 2007; Young, 2006).

Third, this dissertation follows the practices of sell-side professionals which is a large research field in itself, commonly argued in need of more exploratory work (Brown et al., 2015; Ramnath et al., 2008). The dissertation offers empirical insights into face-to-face interactions between analysts and managers, as well as investment banks' in-house activities. Observation-based research is almost non-existent in this stream of research,

and this dissertation thus answers calls to investigate the “[...] interactions of sell-side analysts, fund managers and company managers” (Imam et al., 2008, p. 531). By providing an empirically rich investigation on relevance, this dissertation contributes to what would traditionally be discussed as the market mechanism (Barker, 1998) or the price discovery process (Lee 2001). Moreover, it adds to the traditional accounting literature by exploring the processes of financial analysis (Bradshaw, 2009), and also invites perspectives on viewing relevance as more than for equity valuation.

Finally, this dissertation offers practical contributions foremost via a rich narrative of accounting users’ activities. The study provides conceptual relevance for society (Nicolai and Seidl, 2010), which mostly aims to “[...] change the way we think and communicate about our world” (ibid. p. 1267). There are few members of society who remain unaffected by stock markets (Johed, 2007), yet accounts of their participants rarely extend beyond the rationality assumed by financial theory or professional’s own narratives of their activities (cf. Buchanan, 2013). By providing a rich and detailed exploration of financial markets, this dissertation produces a narrative of accounting, users, and relevance which problematises many features otherwise taken for granted.

Dissertation outline

This dissertation is written as a compilation of four research papers, which are added to this introductory section and final discussion. It is in these papers that the main arguments are made and the empirical findings presented. This introductory section discusses these papers in relation to the issue of relevance and also addresses in greater detail the empirical context and projects.

The subsequent section expands the issue of relevance and introduces arguments from studies on accounting, value, and valuation relevance. It is also in this section where the pursuit of relevance is introduced and its shifting emphasis from investment decisions as endpoints to decisions as promises is elaborated (Mouritsen and Kreiner, 2016).

In order to understand financial analysis as social and institutional practice (Miller, 1994, 2001), the third section discusses the case of sell-side equity research and explores these users’ practices beyond what is appropriate in a journal article format. Three features in sell-side professionals’ activities are highlighted here: remuneration model, emphases on building a franchise, and dependencies on corporate executives and fund managers. This section therefore expands on the social and organisational context of sell-side firms, on how sell-side professionals may be understood in relation to relevance, and, finally, identifies key issues from the literature.

Section four presents method and methodology and also expands it beyond the scope of a methodology section in a journal article. It explores the empirical projects of this dissertation, discusses the process of problematising financial analysis, and presents the particular method theories employed in the papers. These lead to section five, in which the papers are presented and linked to the overall aim of the study.

Finally, the dissertation presents an overall discussion and the conclusions. This section links the findings in the presented papers to the current conceptualisations of relevance and thereafter argues that relevance is: (a) mediated by a variety of elements, (b) based on the production of differences, and (c) mutually constitutive for accounting and users. Finally, this dissertation presents contributions and suggestions for future research.

Problematising relevance

Relevance is a feature commonly called for within accounting research (Barlev and Haddad, 2003; Francis and Schipper, 1999; Johnson and Kaplan, 1991; Lev and Zarowin, 1999), yet the premises of the concept are rarely placed under scrutiny. This seems to be a fallacy of relevance in general because, in other fields, calls for relevance tend to be met with questions on what such relevance means (Hodgkinson and Starkey, 2011; Scapens, 2008). A literature search for relevance is therefore challenging and this review does not make claims of being exhaustive. It does however attempt to review and problematise the three main understandings of relevance within accounting and finance literature,¹ here discussed as, accounting, value, and valuation relevance. However, I also include insights from neighbouring fields in order to discuss and expand the understandings of relevance in accounting. This means emphasising studies about relevance as a phenomenon and excluding those that argue that something is more relevant than something else. Theories using relevance to designate a specific theoretical argument only remotely related to the current discussion in accounting have also been excluded (e.g. Schutz, 1970; Sperber and Wilson, 1987).

Accounting relevance

The best way to introduce the topic of relevance is probably exploring what the normative perspective on relevance suggests—what I call accounting relevance. In brief, relevant financial information should make a difference in the decisions of accounting users and, specifically, in their provision of capital (IASB, 2010, QC6). The primary objective of accounting is to provide decision-useful information and such objective, to some extent, stands in contrast to arguments of accounting being as “true and fair” as possible (Erb and Pelger, 2015). Representational accuracy remains

¹ Additionally, note that insights have been made in terms of how accountants or analysts construct relevance in themselves as providing expertise on certain areas, such as environmental reporting (Power, 1997). However, this is not the key interest of this study, although the relevance of analysts as financial experts is frequently in question (Bruce, 2002) and—as per the discussion section—the relevance of accounting also influences the relevance of its users. Instead, this section describes the links between information and its users.

important as the second qualitative characteristics of decision-useful information—faithful representation (IASB, 2010)—but relevance shifts emphasis to the “pertinence of an economic construct [...] to a user’s decision” (Kadous et al., 2012, p. 1336).

Relevance refers more accurately to accounting aiding the presumed (cash flow) forecasts of users (IASB, 2010). The key emphasis in this definition of relevance is thus that relevance is located within accounting information itself and that “relevant financial information is, by definition, capable of making a difference in users’ decisions” (IASB, 2010, QC14). Different accounting choices are believed to influence users to a higher or lesser degree (Kadous et al., 2012), some being “uniformly relevant” (Chambers, 1966, p. 102) or “relevant to all decision theories” (Sterling, 1970, p. 359).

The boundaries between relevance and faithful representation are, however, not always clear (Kadous et al., 2012; Whittington, 2008), not least since accounting is argued to be decision-useful only when both criteria are met (IASB, 2010). Usage or its absence is thus not necessarily a sign of (ir)relevance (Barth et al., 2001) and trade-offs between relevance and representational accuracy have been extensively debated (Dye and Sridhar, 2004; Healy et al., 2002; Kallapur and Kwan, 2004). Since “reliability” was re-framed into “faithful representation” in 2010 (IASB, 2010), however, it has now been argued that accounting collapsed into questions of relevance altogether (Erb and Pelger, 2015; Power, 2010). Now, also representational accuracy is interpreted through a market-based perspective (Power, 2010) and relevance is increasingly taking over other traditional objectives of accounting—such as the stewardship function (Lennard, 2007). This critique is also repeated in relation to IASB’s exposure draft for the updated conceptual framework (IASB, 2015) because “measurement uncertainty” has been proposed to be added to relevance. Comment letters now argue that this “may lead to an interpretation that relevance is more important than faithful representation and possibly to the conflation of relevance with usefulness” (IASB, 2016, p. 14).

Empirical issues of this perspective on relevance have been already mentioned in the introduction and will not be repeated here. Conceptually, however, there are further issues with viewing relevance as a quality. Scholars targeting relevance directly (e.g. Francis and Schipper, 1999; Nicolai and Seidl, 2010) tend to agree that:

[I]t is meaningless to ask for an absolute index of the relevance of an isolated item X. The appropriate question is rather, ‘How is X relevant to Y?’ Relevance of X must be in relation to something (Gorayska and Lindsay, 1993, p. 304)

The impossibility of treating relevance as an innate quality was for instance early problematised by Lord (1966) in the context of theology. In order to

interest his students, Lord (ibid.) found himself translating examples in religious texts to a contemporary context in order for these to be perceived as relevant. He had to produce subjective relevance in a “curious reversal of revelation” (p. 7). Relatedly, information science has largely abandoned the previous dominant “systems view” on relevance (Hjørland, 2010; Lloyd, 2010). Such systems view ignores the preferences of users by assuming that perfect systems are relevant in themselves. Current rejections of such perspectives, however, are because “[t]he system’s (i.e., the programmer’s) selection is [...] not ‘perfect’ or ‘objective’ but is a choice made among many possible choices” (Hjørland, 2010) (p. 218). Relevance is a relative concept and the questions its research should address are not “what is relevant” but “how is something relevant to something else” (Gorayska and Lindsay, 1993).

Value relevance

The second common notion of relevance is value relevance. Beginning in the late 1960s (Ball and Brown, 1968; Beaver, 1968), and growing significantly in the 1990s (Barth et al., 2001; Kothari, 2001), scholars shifted their attention from the qualities of accounting per se towards the influence of accounting on stock market prices (Chambers, 1993). Value relevance is an attempt to empirically test accounting information qualities and, therefore, follows the tradition of positive accounting theory (Watts and Zimmerman, 1978; 1990). With foundations in efficient market theory (Fama, 1970) value relevance is also a concept that has academically pushed finance and accounting closer to one another. The very influential study of Ball and Brown (1968) was, for instance, first rejected from *The Accounting Review* because it was not “accounting enough” by contemporary standards (Ball and Brown, 2013). Since then, Power (2012) argues, financial accounting has been “engage[d] in a process of catch-up to make accounting more like finance” (p. 304).

The underlying argument in value relevance is that stock markets are informationally efficient, meaning that share prices will adjust when decision-useful information is released (Fama, 1970). Changes to share prices—if the argument is reversed—should thus be an indicator of decision-useful information having surfaced (Barth et al., 2001). If the release of accounting information may be linked to contemporary stock market movements, it is therefore assumed that one measures “[...] information that is used by investors in valuing firms’ equity” (Barth et al., 2001, pp. 98-99). Note that value relevance studies commonly accept the definitions of relevance laid out by accounting relevance (Kadous et al., 2012), but assume that market movements measure both the relevance and representational qualities of accounting (McDonough and Shakespeare, 2015). Again, a lack

of value relevance may equally be due to accounting being an inexact representation. However, the key difference in this form of relevance is that emphasis is moved from accounting qualities to the impacts of accounting on stock markets (Chambers, 1993).

A separate measure of relevance is also occasionally employed within this tradition which investigates the impacts of accounting on analysts' forecasting (Bowen et al., 2002; Irani, 2004). I refer to also these studies as value relevance, however, because, although analysts' forecasts are not necessarily tied to stock market values, these studies use similar methods, theories, and arguments for relevance. Foremost, relevance is also in studies on analysts' forecasts measured via the impacts of accounting.

Value relevance has, amongst others, been criticised because it excludes certain users specified within accounting relevance (Holthausen and Watts, 2001). It has also been argued that value relevance equates usefulness with usage and, thereby, excludes the possibility that users must use accounting regardless of the relevance of other measures (Chambers, 1993). Nonetheless, such an inclusive view on relevance also invites the major issue in value relevance studies, because the theory rarely investigate how or why something is relevant to users (Ramnath et al., 2008). The implicit assumption of value relevance suggest that these investigations "directly enable researchers to empirically observe how useful such information can be for investors" (Huang et al., 2016, p. 20). This premise is difficult to sustain (Bradshaw, 2011), and the linkage between stock market movements and real-life events has been subject to heavy criticism (Chambers, 1974; McGoun, 1997). The emphasis on macro-level phenomena tends to leave out the processes with which something is generated (Coleman, 1986; Collins, 1981), and the market mechanism (Barker, 1998) and price discovery process (Lee, 2001) are largely unexplored.

Valuation relevance

The final stream of relevance studies in accounting and finance attempts to address the intermediary activities between accounting and stock market impacts. This research approach emphasises valuation relevance (Flöstrand and Ström, 2006), meaning that "[i]nformation has valuation relevance if it is used by [users] in the valuation process" (ibid. p. 580). The underlying logic of valuation relevance is that "what is used is determined useful" (Flöstrand, 2006, p. 16), and, above all, these studies position relevance within the analysis of accounting. Note that this concept has not been widely adopted as an umbrella term and some authors have used valuation relevance interchangeably with value relevance (Bartov et al., 2001; Callen and Morel, 2005; Guenther and Sansing, 2004)—to some extent again highlighting the implicit assumptions of value relevance studies.

However, the logic of valuation relevance, as described by Flöstrand (2006), is fairly common in relevance studies although a minority. Numerous studies which investigate analysts and fund managers use a valuation relevance logic when asking respondents what information they prefer to use and with what methods (Arnold and Moizer, 1984; Barker, 1998; Brown et al., 2015; Gassen and Schwedler, 2010; Pike et al., 1993). These studies are rarely explicit on their theoretical foundation although the inspiration from economic theories (similar to that of accounting and value relevance) is evident in at least some of them (Barker, 1998, 2000; Brown et al., 2015; Gassen and Schwedler, 2010). These studies are generally inductive (Barker and Imam, 2008; Holland, 2005) and tend to utilise questionnaires, interviews or content analyses in order to understand which information sources or valuation methods users' prefer and, although to a lesser extent, why.

This dissertation's approach to relevance is related to this stream of research but extends the current state of valuation relevance in two important directions. First, as the name suggests, valuation relevance emphasises equity valuation. Although valuation techniques are integral to the activities of market participants, accounting users do more than valuing (Hägglund, 2000; Imam et al., 2008), especially when valuing is seen as the "process of translating information into a value" (Flöstrand and Ström, 2006, p. 16). This dissertation keeps issues of how accounting is used unspecified, thus remaining open to possibilities that other issues than valuation techniques influences users' relationship to accounting (e.g. Beunza and Garud, 2007).

Second, valuation relevance studies tend to quantify users' preferences and produce hierarchical lists of preferred information sources (Barker, 1998; Bence et al., 1995; Breton and Taffler, 2001; Brown et al., 2015; Cascino et al., 2014; García-Meca et al., 2005; Gassen and Schwedler, 2010; Notable exceptions however include: Gniewosz, 1990; Holland and Doran, 1998; O'Barr and Conley, 1992). The issue with such analyses is the emphasis on the average use of accounting over an average population (Bence et al., 1995; Schipper, 1991). Emphasising the general over the specific largely excludes issues at stake when accounting is used (Vollmer, 2007), making it conceivable that many aspects of relevance are excluded from these investigations. Therefore, this dissertation chooses instead to follow accounting and its users in their pursuit of relevance.

The pursuit of relevance

The elusiveness of relevance has been acknowledged in many research fields beyond accounting studies (Gorayska and Lindsay, 1993; Hjørland, 2010). Calls are commonly made for relevance before exploring what such relevance means (Starkey and Madan, 2001), and this has spurred

discussions concerning what the nature of relevance is (Hodgkinson and Starkey, 2011). In fact, lack of relevance has often been a concern because there are “relevance problems” for the research fields themselves (Niss, 1994; Starkey and Madan, 2001) – is research relevant for society?

Discussions concerning research relevance have problematised the nature of relevance and tried to reduce its influence as indisputable argument (Scapens, 2008). To be relevant does not necessarily mean that something should be instrumentally applicable to users (Nicolai and Seidl, 2010)—as often is claimed in accounting research (Slack and Campbell, 2008)—and there are concerns that such interpretations of relevance drive disciplines into irrelevance (Labaree, 2008). What is relevant “is easier to recognise in retrospect than in prospect” (ibid., p. 422) and calls for relevance are even believed to induce myopic behaviour (Augier and March, 2007). Viewing relevance in terms of usage means emphasising the present over the future and, therefore, possibly evading long-term implications (ibid.).

Studies in other fields have also argued that even relevance as usage is more complex than commonly argued for in accounting studies (Starkey and Madan, 2001). Some usage originates in information being understandable and relatable (IASB, 2010) but, other times, usage is initiated because of external demands. Career opportunities or performance evaluations for instance create a certain form of extrinsic relevance where information is used without it being perceived as relevant in itself (Hodgson, 1997). Relatedly, some usage is influenced by interactions with others in which vicarious experiences of relevance are produced (ibid.). As such, relevance is not merely a cognitive activity (Sperber and Wilson, 1997), but is equally influenced by the social and organisational circumstances in which information is put to use (Hopwood, 1983).

The attempt of this dissertation at broadening the scope of relevance is, however, not related to introducing new definitions of the concept, but instead arguing for alternative ways of approaching it. The rich insights into the concept of relevance in other fields should foremost be viewed as inspirational for the numerous ways also accounting may be relevant to users. This dissertation chooses instead to analyse the relationships between accounting and users in practice, and borrows the notion “pursuit of relevance” to label these. This phrase has been employed in various contexts (cf. Augier and March, 2007; Brennan and Turnbull, 2000; Labaree, 2008), but the perspective employed in this dissertation is best exemplified by quoting Neil Postman—one of the first scholars in such pursuit. Postman (1967) was concerned that linguists and English teachers had become “fearful of life” (p. 1161), meaning that they foremost established how language should be used rather than exploring its empirical application. By adopting categories, rules, and correct answers, they treated “the language of real human activity [as] too sloppy, too emotional and uncertain and altogether too dangerous to study [...]” (p. 1161). A pursuit of relevance, he

argued, would instead be the study of contextual language use, in which the arbitrary, irrelevant, and ostensibly incorrect use of language was taken seriously.

Postman's (1967) call for studies in linguistics resembles calls now made for studies within financial accounting (Robson et al., 2010). The influence of financial economics has not only caused accounting studies to emphasise investment decisions, but also often presumed a certain user rationality which eludes studying their practices (Power, 2012; Young, 2006). An additional influence from finance, which is problematised here, is equally found within valuation relevance, however, and concerns which part of the decision-making process is to be targeted. It is interesting to note that finance has etymological² roots in the French *fin* and, thus, originally refers to coming to an end—most likely the payment and termination of debt.³ Finance as the study of ends is evident not least in the concept of relevance, because relevance is consistently theorised as that which comes before the decision (Beccalli et al., 2015; Bradshaw, 2009). Accounting relevance emphasises the end-seeking qualities of accounting (IASB, 2010), valuation relevance investigates the techniques to reach the end (Cascino et al., 2014; Imam et al., 2008), and value relevance assesses ends as stock market impacts (Callen and Morel, 2005). Hence, relevance also ends with the decision being made and relevant accounting information thereafter transform into irrelevance (Groysberg and Healy, 2013). Relevance is consumed after decisions are made (Knorr Cetina, 2010) and a new decision-making process begins with equally new relevancies.

By emphasising the pursuit of relevance, however, this dissertation chooses instead to follow a perspective of decision-making recently theorised by Mouritsen and Kreiner (2016): decisions as promises. The authors (*ibid.*) advance their argument in the context of management accounting, where accounting and organisational decision-making have been explored at length (Baxter and Chua, 2003; Burchell et al., 1980; Hall, 2010; Lee and Humphrey, 2006). However, Mouritsen and Kreiner (2016) claim that studies on organisational decision-making have also fallen into the analytical trap of emphasising the processes leading up to a decision. To view decisions as promises means instead to acknowledge that the activities of participants do not end with the decision being made, because decision-makers must continuously negotiate their decisions to support their claims. A decision is therefore also a number of beginnings:

² Please note that etymological roots are not useful because they reflect any “truer” meaning of the word than its general usage. Etymology mostly brings new ways of viewing a phenomena and inspires creative thinking (Usunier, 2011).

³ Collected from the Online Etymology Dictionary, 2016-04-12; 12:00
<http://www.etymonline.com/index.php?term=finance>

Understanding decisions as promises makes it possible to move attention from the things that happen before the decision to the things that happen to the decision (Mouritsen and Kreiner, 2016, p. 29).

Reframing decisions from ends to promises mainly highlights the inseparability of the decision and its' makers (Vollmer, 2007) because to make a promise is to “[...] offer oneself as a link between the present and the future” (Mouritsen and Kreiner, 2016, p. 22). As such, when a decision has been made, the decision-maker will continue to negotiate both the promise and what the promise refers to in order for these to align (Mouritsen and Kreiner, 2016). Investigations should thus not only emphasise the activities involved in reaching a decision, because decision-making—even investment-making—is also the management of decisions.

Previous perspectives on relevance ending with the investment decision thus exclude questions regarding the roles accounting serves when promises—such as an investment, a forecast or an advice—are managed. This not only obfuscates the interactive process of decisions being reached (Bence et al., 1995) but also the exchange between users once they are made. By making promises, users also attribute their recommendations to certain stakes (Vollmer, 2007) because, if their promises do not hold, they (or their customers) will infer financial and/or reputation loss (Boivie et al., 2016). In order to support their claims of expertise, they too have to negotiate their promises and the organisations they refer to. Hence, viewing investment activities as promises extends the analysis from how decisions are made to studying an on-going realisation of relevance where promises are made, supported, and altered.

Following users' pursuit of relevance therefore means to shift emphasis from accounting itself to the processes and practices through which accounting is made relevant (Bay, 2011; Catasús, 2008; Mouritsen, 2006). Instead of treating (relevant) information as what triggers an investment decision, this dissertation emphasises relevance as established between market participants interactively (Vollmer et al., 2009). This means targeting how accounting is negotiated between various users (Imam et al., 2008), but also how they support or problematise their activities (Imam and Spence, 2016). In fact, this is where the duality of “pursuit” is particularly useful. A pursuit of relevance allows for relevance to be understood as simultaneously sought (Scapens, 2008) and practiced (Benbasat and Zmud, 1999), and thus never really ending. To pursue relevance suggest that relevance is an outcome of participants' activities but also that practitioners continuously seek to acquire it. Relevancies are made (e.g. Power, 1997) but they are never completely done. The question in the pursuit of relevance is thus not only in what different ways accounting is relevant, but even more so understanding how such relevancies come to exist and acknowledge that

they may become something else: “[r]elevance, like everything else, is an achievement” (Latour, 2005, p. 138).

The possibilities of relevance

This dissertation is most confidently classified as an accounting study and it specifically follows a tradition of viewing accounting as a social and institutional practice “intrinsic to, and constitutive of social relations, rather than derivative or secondary” (Miller, 1994, p. 1). Viewing accounting in this regard means rejecting the perspectives of accounting as neutral “answer machines” within decision-making (Burchell et al., 1980; Chua, 1986). The social turn in accounting studies instead originally targeted the previous dominant view of accountants as record-keepers and that discrepancies within accounting systems were interpreted as short-comings of individuals (see Scapens, 2006, for a historical development). Viewing accounting as social and institutional practice was thus an attempt to move emphasis from *theories in accounting*, in which researchers mostly aimed to improve these measurement systems, into *theories of accounting*, where the social roles of accounting are explored at length (Burchell et al., 1985; Lukka and Vinnari, 2014).

By problematising the representational qualities of accounting, this stream of literature investigates how seemingly given phenomena—such as performance (Chua, 1995; Svärdesten Nymans, 2012)—are constructed in complex organisational processes (Justesen and Mouritsen, 2011). Accounting change is not a linear improvement because “accounting is a phenomenon which is what it isn’t and can become what it wasn’t” (Hopwood, 1983, p. 289). Accounting is, however, not just influenced by its social context, and this literature stream emphasises how the establishment of accountability and verifiability also impact organisations and society (Power, 1996; Roberts, 1991). Accounting provides certain means of knowing (Fauré et al., 2010) and also influences what is seen as desirable (Rose and Miller, 1992). Foremost, accounting influences organisations and organisational members by making them calculable and governable (Miller and O’leary, 1987; Robson, 1992).

In contrast to the rich understandings of accounting in organisational decision-making (Burchell et al., 1980; Hall, 2010) and the social elements of management accounting technologies (Ahrens and Chapman, 2007; Baxter and Chua, 2003; Lukka and Vinnari, 2014), studies on financial reporting and financial analysis have employed similar practice-based approaches to a lesser extent. Instead, interdisciplinary perspectives on financial reporting foremost originated in discussions concerning the impossibilities of arguments made within accounting standards (Alexander and Archer, 2003; Hines, 1988; Lee, 2006; Macintosh et al., 2000;

Mattessich, 2003; Morgan, 1988). On one hand, these studies have problematised many issues previously taken for granted—such as “true and fair” and “economic reality”—and illustrated implicit assumptions within the rhetoric of financial communication (Davison, 2008; Young, 2003). On the other hand, however, there are few insights concerning how market participants cope with such impossibilities of accounting in practice (Mouritsen, 2011). As argued in the introduction, social perspectives on accounting have substantial knowledge gaps concerning the influence of accounting on capital markets (Vollmer et al., 2009).

A separate research field, however—social studies of finance—have recently gained insights into the capital market practices which interdisciplinary accounting studies have not yet targeted to the same extent. This field aims to understand how capital markets are socially and culturally constituted (Zaloom, 2003), and two broad approaches may be located within this literature stream. The first traces how the theories and technologies of financial markets are performative and thus impacts the markets they are presumed to describe (MacKenzie, 2011; Preda, 2006). The second stream adopts micro-sociological approaches and uses ethnographic investigations to understand financial market practices (Beunza and Stark, 2003; Cetina and Bruegger, 2002; Zaloom, 2003). By drawing primarily on insights from science and technology studies (Callon, 1998) this field extends the argument from economic sociology that (financial) markets are embedded in social institutions (Carruthers and Stinchcombe, 1999; Granovetter, 1985). For social studies of finance it is instead “[...] the structuring process as such [which] is at stake” (Barry and Slater 2001).

The big “twist” (Arminen, 2010) in this stream of research is that it “treats economics as a material force increasingly embodied in economic practices, market arrangements and social structures” (ibid. p. 172). Information—or financial cognition—is viewed as distributed between people, tools, theories, and practices (Preda, 2009, Callon, 1998), and relevance is in such a view a collective endeavour beyond the social (Latour, 2005). The emphasis is instead on interactive processes—such as calculating—that determine what actors “[...] will accept as information, how they will process and store it, and how they will use it in their activities” (Vollmer et al., 2009, p. 621). Mostly, what influences such financial cognition should not be decided beforehand because, similarly to arguments made in accounting studies (Justesen and Mouritsen, 2011), any stability is temporary and fragile.

Whereas social studies on finance have gained a richer understanding of the practices in which financial reports are used, this field still retains its own knowledge gaps which the case of accounting may contribute in exploring. It has, for instance, been argued that although information is the central concept within studies on financial markets (Blomberg et al., 2012; Hall, 2006):

[...] few have addressed the question of what type of knowledge information knowledge is, how our theories of knowledge extend to it, and what sort of epistemology might apply to information (Knorr Cetina, 2010, pp. 171-172).

Market participants predominantly trade information (Knorr Cetina, 2011), and accounting is therefore a central input to their activity (Barker, 2000; Blomberg et al., 2012). Information has been described as a constitutive force in society (Braman, 1989), and Knorr Cetina (2010) especially acknowledges financial markets to be “deeply penetrated and in fact constituted by information” (p. 172). Accounting is in many ways an engine (MacKenzie, 2006) of financial markets and may thus contribute to social studies on finance because it emphasises the information investors and analysts seems to emphasise above all others (Brown et al., 2015).

Since the pursuit of relevance follows the practices of accounting users in capital markets, it offers opportunities to make a joint contribution to these fields (Power, 2012; Wansleben, 2012). Social perspectives on accounting and finance have mainly been separately investigated despite their overlapping interests in the social roles of numbers and calculations. Vollmer et al. (2009) emphasise that such parallel development is partly due to how the research field itself is organised. Interdisciplinary accounting research has foremost highlighted management accounting and organisation studies (Mouritsen et al., 2009; Vaivio, 2008) because scholars interested in financial accounting and financial analysis most often share departments, methods, and theories with finance and economics (Kothari, 2001). Social studies of finance, on the other hand, are mostly conducted by sociologists—not necessarily at business schools—and the link between this stream and business studies is not well-established (Mennicken et al., 2008). In fact, calls are now repeatedly made to bridge these literature streams in order to create a bigger platform for studies on markets (Hopwood, 2009; Power, 2012), and explore how various forms of accountability and financialisation impact one another (e.g. Roberts et al., 2006).

Consequently, financial analysis has the advantage of being positioned on the margins of both accounting and finance (Miller, 1998) because it emphasises both the situated use of accounting and the practices within financial markets. There is increasing interest for the empirical area of accounting users and capital markets (Imam and Spence, 2016; Tan, 2014), and scholars are now directing their attention towards the social interactions surrounding the company/capital market interface (Barker et al., 2012; Roberts et al., 2006; Solomon et al., 2013), hence the illusive boundary where the company ends and the capital markets begin (Stoner and Holland, 2004). The possibilities of gaining a richer understanding of relevance lie not only in exploring the roles of accounting in further contexts, but also in exploring the influence of accounting on financial markets practices.

The case of sell-side research

The users emphasised in this dissertation are sell-side professionals,⁴ specifically equity research analysts and equity sales brokers. Many calls have been made to enquire into the black-box of sell-side professionals' decision-making (Bradshaw, 2011; Ramnath et al., 2008) not least because this is a large literature strand that predominantly builds on value relevance approaches. This dissertation thus adds to this literature theoretically by adopting a social and organisational perspective on their activities, and empirically by investigating areas of their activities which have received limited attention. There are however good reasons as to why also the theoretical concept of relevance may benefit particularly from an analysis of these market participants.

First, studying sell-side professionals in relation to relevance is a common approach in equity market research (Kothari, 2001; Ramnath et al., 2008). Analysts are viewed as sophisticated users of accounting information (Bence et al., 1995), and this presumed sophistication leads analysts' forecasting to be used as a measure of information and relevance itself (Bassemir et al., 2013; Irani, 2004). Similarly, analysts' use of accounting is deemed central to valuation relevance scholars who commonly target their activities (Brown et al., 2015; Imam et al., 2008). In practice, "stock market places substantial reliance on analysts' research" (Barker and Imam, 2008, p. 314) and fund managers have even faced law-suits for not consulting experts (Hägglund, 2001). In fact, IASB (2010, QC32) states that accounting may be too complicated at times for the average investor who should then seek advice from these experts.

Second, sociology scholars (Fogarty and Rogers, 2005; Zuckerman, 2004), argue that information efficiency and thus (value) relevance is dependent on the mediation of these experts. By conceptualising analysts as critics (Zuckerman, 1999), this stream of literature argues that sell-side

⁴ "Professional" is a debated epithet and brings questions on whether or not financial analysis is a "profession" (Blomberg et al., 2012; Jacobson, 1997; Preda, 2005). I avoid such discussion and merely use it as an umbrella term for analysts and brokers—the two groups investigated within this thesis. I make no claims that analysis constitutes a profession similar to that of, for instance, medical or law professions. Blomberg et al. (2012) chooses to consistently use "experts" rather than "professionals" because the sell-side does not monopolise financial knowledge or investment recommendations, nor do they rely on formal education or credentials in doing so.

professionals legitimise investment activities and provide a more rational and scientific approach to markets (Fogarty and Rogers, 2005; Preda, 2005). Relatedly, analysts are shown to reduce uncertainty in equity valuation by producing classification schemes and interpretive frameworks (Beunza and Garud, 2007; Zuckerman, 1999). Analysts' role as critics is especially indicated in relation to the publication of accounting reports because disappointments or surprises are not judged in relation to firms' historical trends but to sell-side analysts' expectations for them.

Third, sell-side professionals are not end-users of accounting. They commonly work in investment banks or brokerage firms and do not consume information "until nothing of value is left" (Knorr Cetina, 2010) but must instead convince their clients that the information is relevant also to them (Bildstein-Hagberg, 2003). Sell-side firms are information intermediaries (Healy and Palepu, 2001), and thereby connect "buyers" and "sellers" of the information which should inform capital allocation. In comparison to their clients—mutual funds, fund managers, and "buy-side" analysts (Cheng et al., 2006)—sell-side firms do not collect and manage investors' capital. Their presumed role is to disseminate information to others.

Finally, the social and organisational context of the sell-side industry makes sell-side professionals dependant on a very particular relationship with accounting. Whereas fund managers are organised to conceal the links between individuals, decisions, and performance (O'Barr and Conley, 1992), and hedge fund traders are found to detach themselves from their promises (Beunza and Stark, 2004), sell-side professionals must make their contributions explicit. This section is especially dedicated to exploring this particular aspect of sell-side professionals.

The sell-side industry and relevance

The sell-side industry is, amongst others, specialising in distributing and interpreting accounting information. The reason for why sell-side professionals commonly are targeted in relevance studies, however, is most prominently because of the public nature of their analysis (Bradshaw, 2011). Brown (1993a) explains that the academic interest on sell-side professionals increased when analysts' forecasts became publically available because this enabled the link between forecasting and share prices to be made explicit. Forecasting literature was at "a dead end in the late 1970s" (Brown, 1993a, p. 315), but real-life forecasts gave researchers a measure for the amount of information already incorporated in share prices—a measure required by the efficient market hypothesis (Fama, 1970). Earnings forecasts imply that analysts prognosticate certain key accounting items (such as sales and earnings) (Bradshaw, 2011; Brown et al., 2015), and the averages of such

forecasts thus began being used as surrogates for the market's general earnings expectations (e.g O'Brien, 1988).

Decades of research later, however, it is commonly argued that research on the sell-side industry has problems expanding beyond analysts' forecasts (Bradshaw, 2011; Ramnath et al., 2008). The emphasis on forecasts was already subject to criticism in the 1990s (Brown, 1993a; Schipper, 1991) when Zmijewski (1993) asked the following question:

What do financial analysts do? How would a totally uninformed reader, say a physicist, answer this question after reviewing the issues examined in the financial analyst-related academic literatures? (p. 340).

Although forecasts are part of sell-side firms' offerings, it is problematic to give them primacy because such forecasts are, at best, an input for analysts' final investment recommendations (Schipper, 1991). A simple schematic of analysts' information processing is drawn by Bradshaw (2009, p. 1076) and repeated by Beccalli et al. (2015, p. 523) in which the activities of analysts are understood as the follows:⁵

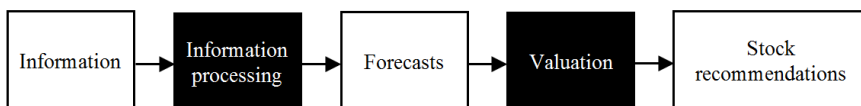


Figure 1: The presumed decision-making process of sell-side professionals

It is thus presumed that when analysts receive information, they process it into forecasts which are, in turn, used in valuations to make stock recommendations (buy/hold/sell). The black-boxes of the model are also the black-boxes within the academic knowledge on analysts (Bradshaw, 2009) because little emphasis has been placed on how information is used in forecasts and how they influence investment recommendations.

This model is also useful in explaining the differences in the forms of relevance discussed in the previous section. Accounting relevance is located within the first white box of (accounting) information because both black-boxes have been replaced with arguments on how such activity should be done. The emphasis of value relevance is instead on forecasts and stock recommendations because relevance is predominantly measured in outcomes. Finally, valuation relevance studies investigate the processes

⁵ The only difference between the versions of Bradshaw (2009) and Beccalli et al. (2015) from the version reproduced here is that this version has excluded examples to what information or forecasts may be (these in turn differ between paper versions). Additionally, Beccalli et al. (2015) labelled the middle box "forecast revisions".

between information, forecasts, and recommendations—not least by enquiring which information sources and valuation methods are preferred.

The emphasis on earnings forecasts within sell-side literature is again a symptom of the dominance of value relevance studies in capital market research. In fact, qualitative valuation relevance studies have found that forecasting “[...] is not something which differentiates between [analysts] in the eyes of their fund manager clients (and it is therefore not central to their income generation)” (Barker, 2000, p. 95). Clients do not seem to hold analysts accountable for the accuracy of their forecasts (*ibid.*) and they instead use the advice of analysts to foremost anchor their own subjective evaluations of what is perceived as semi-objective expert knowledge (Hägglund, 2000; Imam and Spence, 2016).

Today even studies claiming explicitly to penetrate the sell-side industry’s “black-boxes” tend to begin with the premise that analysts emphasise earnings forecasts (Abhayawansa et al., 2015; Beccalli et al., 2015; Brown et al., 2015) and literature reviews on the subject commonly exclude qualitative research which suggests otherwise (Bradshaw, 2011; Healy and Palepu, 2001; Ramnath et al., 2008). We are faced with a situation in which a “seemingly disproportionate amount of research has focused on sell-side analysts” (Bradshaw, 2011, p. 1) and yet calls are frequently made to expand our knowledge on these market participants (Imam et al., 2008; Vollmer et al., 2009).

Following Mouritsen and Kreiner’s (2016) arguments, knowledge on sell-side activities may be expanded by emphasising not necessarily how analysts produce their forecasts—or even their recommendations—but rather how they continuously deal with such promises. The decisions in their activities are ambiguous and decision-making is commonly viewed as the publishing of a report, revising a forecast, and/or changing a recommendation (Brown et al., 2013; Ramnath et al., 2008). This is however premature in the continuous and reciprocal interactions between sell-side professionals, buy-side clients, and corporate executives (Imam et al., 2008). Treating a recommendation as the endpoint suggest that there are no discussions between sell-side and buy-side, no mutual influence between experts and their clients, and foremost no accountability for a recommendation. Viewing sell-side professionals’ activities as promises instead emphasises that analysts and brokers are not performing their analysis in isolation but in relation to a rich social context.

The remainder of this section explores the environment in which sell-side professionals manage their promises, elaborating on the particularities of the “market for information” (Allen, 1990; Barker, 1998; Gonedes, 1976), meaning the “[...] institutional means to connect corporate information supply activities to capital market information demand activities” (Holland and Johanson, 2003, p. 466). This is the market in which sell-side professionals participate and is, in turn, embedded within equity markets.

Before turning to sell-side professionals' use of accounting, this text briefly discusses the history of the sell-side which gave rise to their current remuneration model, addresses the importance of reaching star status and finally discusses the conflicts of interests within the industry. Rather than following the more common path and view these social traits as errors or biases (Mokoaleli-Mokoteli et al., 2009), they are here viewed as part of the everyday practices sell-side professionals need to deal with in their accounting usage.

From trades to advices

In order to understand the current remuneration and reward system of sell-side firms, a short historical detour is needed—not least because such narratives problematise functionalist explanations of accounting (Lee and Humphrey, 2006). For a more cohesive and detailed historical analyses, however, please see Blomberg et al. (2012) and Preda (2005) for the development of investment banking, Mackenzie (2006) for the parallel historical development of financial theory, and Jacobson (1997) for the practitioners' own historical account.

Although “investment banking was not an industry before the mid-nineteenth century” (Blomberg et al., 2012, p. 35), sell-side firms' origins can be traced back to the early stock-broker function of connecting buyers and sellers of financial commodities (Blomberg et al., 2012; Preda, 2005). Imagining society without stock markets is today challenging, but the humble origins of stock exchanges are indicated in their common names—such as the Swedish “börs”, Dutch “bears” or French “bourse” (de Roover, 1946). In 14th century Belgium, brokers met at the town square—called Beursplain after the Van der Beurse family⁶—and exchanged financial instruments as they would any other produce (Drennan, 2002). Stock trading “revolved around personal reputation and trust” (Blomberg et al., 2012), and for long it was the brokers that organised the equity market. Broker syndicates were early granted monopoly over financial transactions (Preda, 2005) and controlled both what could be traded and through whom such trades had to be done.

This trading-oriented business models centred on commission-based income where brokers were granted revenues as percentage of executed trades. Stock-brokers were generally not rewarded for their sophisticated analysis of a commodity but because they offered the opportunity to trade—and in many ways “gamble” (Preda, 2009a)—on the stock exchange.

⁶ Although de Roover (1946) claims that this etymology is without doubt, there are arguments whether or not brokers actually met in the house or at the square (Blomberg et al. 2012) and whether this was in Bruges or Antwerp (Perwej and Perwej, 2012)

Financial analysis was not yet viewed as a legitimate form of expertise (Preda, 2007, 2009a), and although equity research now is an established metaphor for sell-side activities (e.g. Blomberg et al., 2012) the idea “[t]hat science and reason might be applied to stock exchange was still a radical notion in 1905” (Fox, 2011, p. 3).

Prior to the 20th century, financial markets were generally seen as a “sphere of immorality and antiscience” (Wansleben, 2012, p. 251), and sell-side professionals were commonly portrayed as questionable characters in older fiction.⁷ Brokers were part of an “exclusive men’s club” (Preda, 2005, p. 463) but the stock-jobbers who connected brokers with the general masses had very low social status (Attard, 2000). In 18th century Paris, stock-jobbers dealt with shares at Rue Quincampoix (Smith, 2004), described by Daniel Defoe as “a place so scandalously dirty, as if it had not been the sink of the city, but of the whole kingdom [...] the darkest and nastiest street in Paris” (collected from Smith, 2004, p. 29).

However, stock trading underwent dramatic shifts during the early 20th century, and experiments in the 1960s explicitly used stockbrokers as representatives of high socio-economic status (Gutmacher and Elinson, 1971; Haberman and Sheinberg, 1969). The experiment also gives an indication on the contemporary perception of brokers in that their abusive behaviour was perceived as much less damaging than the same behaviours from representatives of the working class. Blomberg et al. (2012) particularly highlight the 1920s stock market crash as an impacting development because it called for financial experts who could regain trust in investment activities. Keynes’s (1936) contemporary critique of stock markets as beauty contests called for something to establish investing as more rational and fundamental than self-referential hype (McGoun, 1997).

It seems that the subsequent legitimacy of equity research was established via parallel developments in information and trading technology (Preda, 2006, 2007; Wansleben, 2012), new theories of finance and investing (MacKenzie, 2006; Preda, 2007), and new forms of regulation (Blomberg et al., 2012; Groysberg and Healy, 2013). Another influencing development was a specialisation of stock brokers into different expert groups within brokerage firms (Blomberg et al., 2012). In the current state, this typically entails a division of labour in which analysts perform research; traders organise trades, and; brokers/equity sales communicate investment advice to investors⁸ (Winroth et al., 2010). Without the establishment of sell-side

⁷ For instance, “With an evening coat and a white tie [...] anybody, even a stock-broker, can gain a reputation for being civilized” (Wilde, 2010 [1891], p. 10)

⁸ Few studies have taken an organisational approach to the understanding of investment banks (Blomberg, 2004) and, as a result, there are not many insights beyond practitioners’ narratives in terms of the inner doings in such firms (cf. Buchanan, 2013). Following Blomberg et al. (2012), however, the professional groups directly related to income generation (excluding most mid- and back-office employees) can broadly be classified into analysts, brokers,

professionals as financial experts, Fogarty and Rogers (2005) argue, stock markets would not have such a prominent place in the modern society.

The business model of sell-side thus changed in parallel with the development of equity research, but what seems to have made most impact on current issues within the sell-side industry is the later deregulation of financial markets (Blomberg et al., 2012; Groysberg and Healy, 2013). When markets were regulated, recommendations and advices developed as an additional offering to distinguish otherwise homogenous trading (Healy, 2014) and “[t]he early success of the [sell-side] industry depended largely on the fact that research was funded through regulated commissions” (Groysberg and Healy, 2013, p. 48). De-regulation, however, reduced the influence of brokerage firms, abandoned regulated commission fees, and enabled investors to choose substantially cheaper trading platforms (Goldstein et al., 2009).

Blomberg et al. (2012) argue that this shift enforced investment banks to go from a trading-oriented business model to an advice-driven model, in which the original extra offering of research instead became their core competence. This also suggests that the former high-status employees of investment banks—trading-oriented traders and brokers—lost status to research analysts (Blomberg, 2009). Groysberg and Healy (2013) describe the changes in analysts’ activities as follows:

The impact of the regulatory changes on individual analysts was dramatic. Robert Errigo, former research director at Merrill Lynch, explains, ‘The analyst went from being an intellectual introvert to becoming a dominant salesperson of his research. Analysts who couldn’t sell were driven out of business.’ Other analysts remarked that scholarly aspects of their profession declined; the focus, they felt, shifted from detailed booklike report to stockpicking abilities (p. 50).

A change thus occurred in sell-side firms’ business models, in their claims of expertise, as well as in sell-side professionals’ activities. Developments have also been made in sell-side remuneration systems (explained further in subsequent sections), but the main problem remains in that the revenues of the sell-side industry are based on trading and commission generation (Barker, 2000). Sell-side firms offer bundles of services, including stock recommendations, trading, corporate access,⁹ and database services, but get rewarded via trade commission (Groysberg and Healy, 2013). Without monopoly in trading, this creates potential problems.

traders, and bankers. The last category has not been investigated in this thesis because they have separate revenue streams and business model. As explained in subsequent sections, bankers and equity research/sales are not allowed to collaborate freely.

⁹ Corporate access implies that sell-side firms organise seminars, presentations or private meetings with the top managers or investor relations personnel in listed firms for professional investors and fund managers.

First, income has dropped significantly and complaints from practitioners suggest that “[equity] research has not been self-sustaining since the ’70s” (Masters, 2007, p. 95). In the US, Goldstein (2009) reports that commission decreased from 13 to 5 cents per share between the late 1970s and 2004, and note that the simultaneous increase in volume makes the decrease in real terms “much more dramatic” (p. 5179). Cappon (2014) claims that this has continued deteriorating to about 1,5 cents per share in 2011, and Patrick et al. (2015) claim that aggregate spending on investment-bank research (by estimation) has not only decreased in real terms but is also expected to continue doing so. This seems further exacerbated by increased pressure for the primary customers of sell-side firms—actively managed funds—to perform better than passively managed funds and automated trading strategies (Cappon, 2014).

Second, dozens of analysts or brokers advice fund managers to invest in a firm, but only one (or none) is rewarded with the trade. For illustration purposes, the share of Intel is covered by 134 analysts at 84 brokerage firms (Beccalli et al., 2015) all claiming expertise on the development of the firm. The finding that fund managers mainly appreciate the analyst community’s expertise as a whole rather than individual advice (Barker, 1998) thus also contributes to an already difficult situation of gaining rewards. Subscription systems were for instance only briefly employed within the sell-side industry (Groysberg and Healy, 2013) and information and advice are still provided before receiving income.

Third, sell-side firms’ remuneration model has difficulties linking employees’ activities with commission revenue (Niehaus and Zhang, 2010). Even if the advice of a sell-side firm is used in investment activities, the clients may reward it with a lump payment at end of the year, via trades in another share, or not at all. Commission income is an incomplete performance measure (Jordan and Messner, 2012) and lacks traceability between what sell-side professionals do and what the firm earns (Dambrin and Robson, 2011). The sell-side industry has therefore issues in that sell-side professionals themselves must “prove their own worth” (Patrick et al., 2015), because their success may remain unnoticed otherwise.

The first question to ask in relation to sell-side professional is therefore how sell-side firms get rewarded and how such rewards become linked to the activities of their employees. Furthermore, what is the role of accounting in the establishment of such rewards? Although limited insights have been gained concerning how buy-side clients reward sell-side professionals, one important feature of sell-side professionals’ activities seems to be the pursuit of star status.

The importance of (becoming) stars

The second phenomenon of importance when targeting sell-side professionals is that they seem dependant on building a strong reputation—both towards the general public and towards selected clients (Boivie et al., 2016). The concept of “stars” is here borrowed from a stream of literature which investigates the impacts and determinants of high status analysts. Corporate executives and fund managers, for instance, classify analysts into either “leaders” or the “pack” (Barker, 1998) and such leaders appear to have higher influence on clients than others (Desai et al., 2000; Gleason and Lee, 2003). The impact of star analysts even succeeds on high-status firm managers if their communication opposes one another (Boivie et al., 2016), and stars are believed to also increase their colleagues’ capabilities (Groysberg and Lee, 2010). In fact, because of the problems in the sell-side industry’s remuneration model, Blomberg et al. (2012) argue that “[...] having highly ranked analysts is one of the most important competitive factors for investment banking organizations” (p. 67).

Although reputation is a broad term (Boivie et al., 2016), both research and practice tend to equate star status with high results in public rankings for analysts. These are compiled by business press or other third-party providers¹⁰ (Groysberg et al., 2011; Loh and Stulz, 2011) and high ranks in these evaluations are, amongst others, influential for the career prospects of sell-side professionals (Groysberg et al., 2004). Stardom is, however, broader than formal rankings because:

A key priority for an analyst is to build a franchise. To do so, the analyst has to be an entrepreneur. [...] As an entrepreneur, the analyst has to understand the market, build a research product that investors want to read, market the product to clients through calls and visits, and build name recognition through media exposure and ranking in industry polls. (Groysberg and Healy, 2013, p. 35)

One key reason for the importance of such franchise is that clients have developed voting systems to counter the aforementioned issues on compensating sell-side firms (Brown et al., 2015; Maber et al., 2014). Essentially, since other types of firms offer cheaper trading services than the traditional investment bank, buy-side firms have manufactured separate compensation systems for equity research. There are two main strategies

¹⁰ Wall-Street Journal’s (WSJ) and Institutional Investors’ (II) rankings seems to be the most influential rankings in the US context (Kucheev et al., 2015). Comparable rankings in Sweden are TNS SIFO Prospera and Financial Hearings. Blomberg et al. (2012) claim that these public rankings have reduced in importance in the Swedish context, whereas they seem to retain its influence in the USA. As a respondent in Groysberg and Healy (2013, p. 38) claimed, “II or die.”

employed, both of which emphasise the votes of clients for their preferred research teams.

The first strategy is that buy-side clients decide their total commission spending upfront and, then, at the end of a period, give individual fund managers a number of scores they should use to rank sell-side firms' research teams (Maber et al., 2014). These scores should thus be assigned to the analysts and brokers who have been most important to the fund manager during the analysed period, which should, in turn, take into consideration a general level of advice rather than individual trades. These scores are accumulated and the total sum of commission spending is then allocated to sell-side firms based on weights of broker votes. These results are also subsequently discussed with the sell-side firms (Groysberg and Healy, 2013, pp. 56-57).

The other strategy is influenced by a separate trend, in which the sell-side industry is facing pressure to unbundle their compensation for trading and research (Cappon, 2014; Patrick et al., 2015). Some buy-side firms thus use votes in commission sharing agreements (Groysberg and Healy, 2013), making the compensation for equity research a two-step process. The buy-side firms first trade at their trading firm of choice, which will keep a portion of the commission as compensation for execution. Second, the remaining commission is transferred from the trading firm to the sell-side firm which has provided the buy-side firm with equity research. How much funds individual sell-side firms should receive is also decided by voting at the end of a certain period.

Issues of access have restricted studies of voting systems (Maber et al., 2014), but one conclusion is that voting has made the sell-side industry's income directly influenced by the perceived quality of sell-side professionals (Emery and Li, 2009). Building a franchise is thus central because revenues are directly based on how favourably an analyst or a broker is viewed by clients. Furthermore, existing insights into sell-side professionals' in-house evaluations also find that the performance of analysts and brokers are mainly evaluated based on their public star rankings, their broker votes and their accumulated commission (Blomberg, 2004; Groysberg and Healy, 2013; Niehaus and Zhang, 2010). Building a franchise is thus essential for sell-side professionals' career advancement and compensation (Brown et al., 2015; Groysberg et al., 2011).

As with other rankings (Espeland and Sauder, 2007), analyst rankings and broker votes seem to suffer from reactivity, which mean that an analyst's already established star status influences future evaluations (Emery and Li, 2009). Third-party rankings are either performance-based or survey-based (Kucheev et al., 2015), meaning, in short, that they either measure the stock market impacts of analysts' recommendations or buy-side clients' perceptions of sell-side professionals. Since it is found that the stock market reaction to a changed recommendation is amplified by the analyst's

reputation (Boivie et al., 2016, p. 202), it is conceivable that performance-based star rankings measure movements that to some extent are themselves triggered by star status. Furthermore, this reactivity is even more evident in survey-based rankings because both commission and rankings are based on the (same) fund managers' votes for their favourite analysts.

The importance of star status for analysts is thus well-documented, but there are limited insights concerning how "unknown analysts can rise to star positions" (Beunza and Garud, 2007, p. 14). From a technical perspective, Kucheev et al. (2015) claim that there may be "a substantial random selection of analysts into a star ranking" (p. 6) and quality of advice seems only marginally important for acquiring stardom (Emery and Li, 2009). Attempts to measure star quality note that 30% of stars' performance is based on individual capabilities and hiring star analysts is therefore possibly "the worst thing that happens to [sell-side firms]" (Groysberg et al., 2004, p. 93).

The second question to ask regarding the sell-side professionals' relationships to accounting is therefore how stars are formed and how accounting aids such franchise-building. Analysts' franchise brings the social elements of equity research to the forefront (Blomberg, 2004; Hayward and Boeker, 1998) because sell-side firms and their clients engage in long-term relationships, in which clients provide rewards based on the perceived quality of equity research over time (Niehaus and Zhang, 2010). Social skills seem to have higher influence on commission income than technical skills (Blomberg, 2004) and profitable recommendations are just one of several important factors in voting. Considering how both star rankings and broker votes are assembled, sell-side professionals seem highly dependent on their clients to gain recognition. This brings us to another stream of literature, analysts' conflicts of interest.

Failures and dependencies

The final phenomenon this section addresses before turning to sell-side professionals' use of accounting is the issue of failures and dependencies. Analysts' proficiency in financial analysis is not clear (Bruce, 2002), and Bradshaw (2004), for instance, finds that an investor could outperform their advice "with a simple spreadsheet and a few data points per firm" (Bradshaw, 2009, p. 1074). Until the study of Womack (1996), most studies had recorded a limited value when following their recommendations (Cowles, 1933; Logue and Tuttle, 1973) and the value of sell-side professionals' research and advices is today debated (Bradshaw, 2009; Imam and Spence, 2016). Instead, sell-side services are traditionally viewed as mainly useful for the execution of trades (Brown, 1996) or because they

reduce agency costs when monitoring managers on behalf of investors (Jensen and Meckling, 1976; Moyer et al., 1989).

An early finding in the literature on sell-side analysts has thus been that their earnings forecasts and recommendations are overly optimistic (Chopra, 1998; Mola and Guidolin, 2009). Earnings forecasts are inflated and analysts seem to recommend more often buying than selling a share. As claimed by Hirsch and Pozner (2005, p. 231):

In March 2000, at the height of market mania, analysts' hyper-optimism resulted in 92 buy recommendations for every sell recommendation.

Explaining this optimism has for instance fuelled interest in behavioural finance approaches (Hirshleifer and Hong Teoh, 2003; Jegadeesh and Kim, 2010; Statman, 1999), which have foremost problematised the rationality underlying analysts' activities.

Since the early 2000s, however, this optimism has primarily been interpreted through analysts' conflicts of interests (Bradshaw, 2011; Ramnath et al., 2008). This research field ties the cause of optimism to the organisation of investment banks, because they highlight the influence of sell-side firms' other revenue streams on ostensibly independent equity research (Hayward and Boeker, 1998; Michaely and Womack, 1999; Swedberg, 2005). After commission fees were de-regulated, investment banks also developed their banking business and thereby funded equity research indirectly¹¹ (Groysberg and Healy, 2013). Banking clients are, for instance, firms who need aid in an IPO or a placement and use the expertise within investment banks to execute their deals. To avoid that information from such deals provides analysts and brokers with unfair information advantages, regulation enforces that equity research departments must be separated from the bankers by "Chinese walls" (Hayward and Boeker, 1998), hence a set of internal rules and procedures which restrict bankers from collaborating with analysts and brokers.

Still, "[a]nalysts, who face multiple duties, are in the untenable position of trying to adhere to conflicting loyalties" (Fisch and Sale, 2003, p. 1097). In the early 2000s, major investment banks and especially star analysts were found guilty of knowingly producing misleading analyses in order to receive highly lucrative banking deals (Swedberg, 2005). Today, analysts' biases and conflicts of interests have become a significant field of research (Ramnath et al., 2008), and Bradshaw (2011) lists six potential conflicts of interests for analysts which all are supposed to bias their research. These include dependencies on managers to gain information and organise private meetings (Imam and Spence, 2016) and biases to fund managers, because

¹¹ These firms occasionally offer other services, such as portfolio management or retail banking.

analysts fear displeasing clients if they own shares which analysts choose to down-grade (Bradshaw, 2011). Additionally, sell-side professionals' general ambitions to increase trading volumes and thereby commission (Barker 2000) are also argued to bias their research. Foremost, these conflicts spur arguments that, instead of treating analysts as independent monitors in a principal-agent relationship (Jensen and Meckling, 1976), one must view them as agents—or quasi-agents (Fisch and Sale, 2003)—towards clients.

Hirsch and Pozner (2005), however, observe that only two studies (Hayward and Boeker, 1998; Michaely and Womack, 1999) acknowledged these conflicts of interests prior to the scandals.

It is critical, therefore, for these issues to be incorporated into our research and its interpretation, through careful consideration tempered by a healthy dose of cynicism [...]. We must better include the possibility of these alternative potential explanations in our research (Hirsch and Pozner, 2005, pp. 325-326).

In the 1980s, researchers began releasing the previous “cherished tradition” of viewing analysts as being rewarded for their technical accuracy (Brown, 1993b) and sell-side firms were early known to have different incentives and activities than their fund manager clients (Arnold and Moizer, 1984; Barker, 1998). However, Swedberg (2005) claims that studies on conflicts of interests put too much emphasis on the psychology of greed in explaining problems in the financial industry. Studies, for instance, investigate under which circumstances it is rational to tell truths or lie (Jackson, 2005) and turn organisational issues into a study of economics. In fact, Fang and Yasuda (2009) claim that it was paradoxical that conflicts of interest were found in star analysts' recommendations because these analysts should rationally have most to lose by being caught doing something illegal or immoral.

Swedberg's (2005) argument is instead that interests are developed within the institutions of finance and that interests—and their related conflicts—may only be realised within social interaction. The final question to be brought to the discussions of accounting and relevance is therefore how these dependencies influence sell-side professionals' relationship with accounting and what roles accounting serves in interactions where interests are formed.

Sell-side professionals and accounting

We have finally reached the topic of sell-side professionals and accounting. A fairly long detour preceded the issue of accounting, and the rest of this section is also an unusual narrative of sell-side professionals' use of accounting. The aim of this section until now has, however, been to

introduce the context of the sell-side industry, review important literature on sell-side professionals and continuously problematise their activities in order to approach the issue of decisions as promises. Just now is it appropriate to address the issue of accounting.

Sell-side professionals' everyday work is closely connected to company information (Wansleben, 2012), and it seems as though the history of these experts is intertwined with that of accounting (Jacobson, 1997; Knorr Cetina, 2011). Sell-side professionals are both recipients and senders of accounting information (Bildstein-Hagberg, 2003), and their expertise is not based "[...] on the scarcity of information, but of its abundance" (Wansleben, 2012, p. 252). Expert areas which previously have not been seen as analysts' territory are commonly becoming so (Power, 2010; Tan, 2014), and early conclusions from the dissertation work of Klemcke (2016) even suggest that the user construct originates in conflicts between accountants and analysts.

It is worth emphasising that this section concerns findings on analysts' accounting usage and not sell-side professionals' in general. Previous sections of stars and conflicts of interests have equally reviewed findings on analysts, although this dissertation follows both analysts and equity sales brokers. There is a general lack of studies on the activities of brokers and the few studies targeting equity sales brokers (Blomberg, 2004; 2009; Blomberg et al., 2012) elude issues on their accounting usage. Moreover, existing findings indicate that more thorough financial analysis is made by analysts (Blomberg et al., 2012).

Existing findings on analysts' accounting usage (primarily from valuation relevance literature) suggest instead that information received from the firms themselves is of the highest importance (Arnold and Moizer, 1984; Barker, 1998; Marston, 2008; Pike et al., 1993), and accounting reports and direct interactions with senior managers are consistently ranked as users' most important sources of information. Earnings-related accounting information is commonly perceived as more important than the balance sheet (Barker, 2000; Barker and Imam, 2008) not least because it is easier to use in existing theories on equity valuation (Penman, 2009). Relatedly, interim reports are more important than the summative annual report (Barker, 1998; Clatworthy and Jones, 2008) because sell-side professionals' emphasise news over detail. Additionally, non-financial information is, despite its relevance in theory (Wyatt, 2008), often met with scepticism by analysts (Holland and Johanson, 2003; Slack and Campbell, 2008).

As previously argued, however, these findings are mostly compiled by assessing the average use of accounting over an average population. Instead of listing which accounting items or valuation methods are preferred, there are four additional key themes of findings within analysts' accounting usage which emphasise a slightly different aspect of relevance.

First, accounting cannot be used directly in equity valuation (Coleman, 2014; Holland and Doran, 1998), and, if used, it needs to be adjusted.

Valuation theory, for instance, requires an assessment of phenomena which have not yet occurred (Imam et al., 2008) and the emphasis on historical events in accounting information is thus insufficient. Barker (1999a) claims that: “accounting information is [...] only value-relevant to the extent that it can be extrapolated into the future, and its usefulness is therefore inherently limited” (p. 204). Hence, users adjust accounting numbers for one-offs and non-recurring items and try to establish which level of various accounting numbers which is to be seen as normal (Barker, 1998; 2000). If accounting is used in equity valuation, it must be “filled with meaning” (Bildstein-Hagberg, 2003, p. 449), and this is particularly important for sell-side professionals because they re-arrange accounting for others (Knorr Cetina, 2010). Analysts “[...] collect a considerable amount of information, compress it and present it in a form that is meant to be easier for the brokers and customers to understand” (Winroth et al., 2010, p. 10).

Second, in a critique of valuation relevance’s emphasis on averages, scholars argue that “[i]t is more accurate to consider a number of information sources as being complementary and forming a cluster” (Bence et al., 1995, p. 25). This argument problematises the concept of materiality in accounting studies (a sub-characteristic of relevance, IASB, 2010, QC11) because only immaterial fragments of information can be communicated without restrictions (Loomis et al., 1972; Unger, 2001). Accounting users, however, seem to form “information mosaics” in which inconclusive “tiles” are combined into relevant investment proposals (Holland, 2006). The boundaries of materiality and relevance are thus blurred because accounting users assemble and structure various information sources in order to create a cohesive whole (Brown et al., 2015; Holland, 2006)—or a “new company” as briefly suggested by Roberts et al. (2006, p. 279).

Third, it seems as if the information mosaics built by analysts are different from the mosaics clients build themselves (Holland, 2006). Barker (1998) finds that clients use analysts as valuation benchmarks, meaning that they view analysts’ mosaics as the average expectation of market participants. Clients assess such a dominant understanding of the firm in order to test if their own mosaics are able to outperform the rest of the market (Hägglund, 2000; Imam and Spence, 2016; Zuckerman, 2012b). Analysts thus produce the foundation for firm evaluations (Winroth et al., 2010) and contribute with interpretive frameworks as to how a firm should generally be analysed in the stock market (Beunza and Garud, 2007). Relatedly, clients use analysts’ mosaics to portray a more scientific decision process themselves (Fogarty and Rogers, 2005; Imam et al., 2008).

Finally, despite accounting being the most important written source of information (Barker, 1998; Brown et al., 2015), it is not the single most important source of information for its users. Instead, analysts rank face-to-face meetings and telephone discussions with firm managers highly (Brown et al., 2015). Sell-side professionals’ are argued to travel behind accounting

numbers and understand the corporations in ways which cannot be acquired via abstract accounting reports (Kalthoff, 2005; Wansleben, 2012). Studies on analysts generally find them using mini-ethnographies in their analysis (Knorr Cetina, 2010), evident even in their own creation myths (O'Barr and Conley, 1992) where the field trip is a central element (Jacobson, 1997). Analysts claim to acquire a “feel” for the business, its products and employees (Blomberg et al., 2012) and an important feature is thus to analyse managers’ “whites of the eyes” (Holland, 1998, p. 51).

The resulting thesis seems to be that sell-side professionals’ relationships with accounting extend common perspectives of relevance. Sell-side professionals cannot merely recommunicate accounting information and, instead, they make various adjustments and supplement it with other types of inputs. When positioning these findings on accounting usage in relation to the history and remuneration system of the sell-side industry, the emphasis on building a franchise, and analysts’ dependencies on clients and managers, I propose a different reading and interpretation of accounting and users. Sell-side professionals’ analyses seem to be based on the inadequacy, insufficiency, and incompleteness of using accounting information for investment decisions. The question to be asked in studies on the role of accounting for investment recommendations should rather be how users overcome these inadequacies. Phrased differently—how do they pursue relevance?

Fieldwork and analysis

Investigating users' pursuit of relevance requires an empirically rich field study. To view relevance as achievements means to follow relevance in the making (Latour, 1987), which also suggests that it takes different forms on different occasions (Cascino et al., 2014). In order to gain a deep understanding of relevance, I have therefore chosen to conduct several studies instead of a single-site investigation (Van Maanen, 2006). The boundaries of research fields are "fuzzy" (Nadai and Maeder, 2005) and, when investigating phenomena that transcend isolated populations—such as relevance—one must "[...] self-consciously select, defend, blend, stretch, [and] combine various ethnographic templates or genres [...]" (Van Maanen, 2006, p. 17). This section therefore aims to elaborate on the choices I have made during my empirical fieldwork and discuss them beyond what is possible in a journal article format.

An underlying methodological perspective in this dissertation is that reality, as we come to know it, is a construction (Alexander and Archer, 2003; Berger and Luckmann, 1967; Hines, 1988). Hacking (1999) argues that constructionism is particularly useful when studying how seemingly objective phenomena—such as facts (Latour and Woolgar, 1979) or firms (Hines, 1988)—are created by intricate social processes. To make seemingly indisputable categories and concepts the topic of enquiry means that: "questions that might otherwise remain unthought can begin to be asked" (Young, 2006, p. 581). Truth or falsehood are claims to be analysed (Potter, 1996) and, in the current study, this means exploring the different ways practitioner's conceptualise and enact relevance (or irrelevance) and what such enactments enable them to do (Latour, 1986).

The premise is therefore that, instead of being relevant, accounting becomes relevant (Hallin, 2009; Law, 2004). Accounting is here viewed as a dynamic process instead of a static state (Leung, 2011) and constructionism thereby emphasises the practices of reporting and accounting over the finalised reports and accounts. When studying accounting users this mostly means acknowledging that the qualities of accounting are negotiated also after the numbers are produced (Fauré et al., 2010) because accounting becomes information when interacting with its users (Du Rietz, 2014).

Having such perspective on practitioners also means that the researcher's own knowledge production must be reflected upon. Constructionist perspectives on capital markets reject claims "[...] that we can objectively

observe what [analysts and managers] are doing and thinking when they are operating at the corporate/market interface” (Stoner and Holland, 2004, p. 42). One cannot assume that practitioners fully understand their own practices (Czarniawska, 2007), nor that an interview situation is a neutral exchange of information (Kreiner and Mouritsen, 2005). The questions asked and the viewpoints adopted—both theoretically and practically—impact the research findings (Law, 2004). Even observations without researcher’ active involvement are subjective in the sense that they are based on the researchers’ own cultural background and thereby analysed via specific views on knowledge and reality (Verran, 1998).

The rejection of objectivity does, however, not mean “that there are no meaningful constraints on social construction” (Zuckerman, 2012a, p. 225). Constructionism does not suggest that all interpretations are desirable (Law, 2004), but attempts to “[...] allow the actors the possibility of defining themselves what is at stake” (Barry and Slater, 2002, p. 289). These studies foremost attempt to understand activities that produce seemingly neutral occurrences rather than obfuscating them behind claims of being neutral (Flyvbjerg, 2006; Young, 2006). Constructionism does not evade reality but investigates how such reality come to be and keeps open the possibility that it may become something else (Hacking, 1999; Humphrey and Scapens, 1996).

The active involvement of the researcher neither impairs research validity (Power and Gendron, 2015), but rather enables ethical considerations to be made explicit. A rejection of objectivity should thus be seen as shifting notion of research quality from an evaluation of robustness into trustworthiness (Ahrens and Chapman, 2006; Power and Gendron, 2015). By addressing how-questions (Pratt, 2009) the aim with this research is not to reach predictive theory but acquire context-dependent knowledge (Flyvbjerg, 2006). Trustworthiness emphasises instead that quality in research does not depend on generalisability but on iterations between empirics and theory (Ahrens and Chapman, 2006). The premise that researchers are responsible for their analysis does not elude resistance from others (Latour, 1987; Power and Gendron, 2015) and contextual findings must be made theoretically relevant by positioning them within a particular literature. In order to explore how such trustworthiness is produced within this dissertation, the rest of this section will elaborate how the empirical material has been approached, how the literature has been problematised, and how the material has been analysed via various method theories.

Overview of the material

The empirical cases and the respective empirical materials are summarised in Table 1. All cases utilise a combination of interviews, observations, and documents in order to acquire an empirically rich understanding of relevance and sell-side professionals. In the first case, the fieldwork focuses on the reporting practices of one firm over four years, in the second case the empirical focus is the face-to-face interaction at earnings presentations¹², and the third case follows the in-house activity of an investment bank's equity desk.

TABLE 1: Overview of the empirical material

	Study 1	Study 2	Study 3
Empirical Case	IC in capital markets	Public analyst-manager interactions	Investment bank ethnography
Papers	1	2 & 3	4
Observations	16 recorded presentations 12 hours	38 attended presentations 50 hours	Observations at equity sales desk 100 hours
Interviews	CEO, CFO 3 analysts	21 interviews	40 interviews
Documents	Interim reports and presentation material	Presentation material and hand-outs	Meeting material, analyst reports, e-mails etc.

Choosing qualitative methods was originally based on contributions which could be made on the acquisition of such material alone, especially because these approaches seek to understand “[...] the origins and role of accounting in its specific historical, social and organisational context” (Lee and Humphrey, 2006 p. 183). Financial theory and methodology tend to produce results which obscure the interactive nature of investment-making (Imam et al., 2008), evidenced, for instance, by attempts at theorising social interactions as information signals (Mayew and Venkatachalam, 2012; Price

¹² Detailed lists of the empirical material for papers 2 and 3 are presented in the Appendix.

et al., 2012). By adopting qualitative research to seemingly paradoxical phenomena (Barker et al., 2012), one may advance current theorisation to otherwise rarely questioned concepts—such as relevance.

An explicit aim in the dissertation has been to acquire depth over breadth (Vaivio, 2008) and the empirical cases have in common a focus on the interaction between various market participants and new accounting reports. Few concepts are as central in accounting as earnings (Lukka, 1990), and the release of an earnings report is an important event for a listed firm and its equity market stakeholders (Blomberg et al., 2012). They are occasions in which the company/capital market interface is enacted (Stoner and Holland, 2004), where relations are formed (Johansson, 2007), and where news on the firm are released (Barker, 1998). The cases have thus all aimed to arrive before the information content of the numbers and texts are fully settled (Catasús and Johed, 2007; Latour, 1987) in order to explore the processes through which relevance is established.

The collection of material has been an on-going project through most of the writing of this dissertation, although the majority of the material was collected from late 2012 to early 2015. The nature of this dissertation's fieldwork is thus ostensibly a multiple case study (Eisenhardt, 1989), in which various data sources are used to triangulate the findings (Modell, 2005). I remain hesitant to such labelling, however, because it suggests that findings are supplementary and comparable on an empirical level. In this dissertation, different theories have been adopted for the studies, different types of material have been collected, and different units of analyses have been targeted. As previously argued, the findings are impacted by the particularly theoretical viewpoint adopted, making any direct comparison between the empirical cases problematic. The studies are complementary foremost on a theoretical level and comparisons are therefore made in the discussion and contribution sections.

One may, however, view the studies as complementary in that they have influenced and inspired one another. Interpretive research is an iterative process (Alvesson and Kärreman, 2007; Power and Gendron, 2015; Stoner and Holland, 2004), suggesting that the researcher develops together with the findings. This dissertation's analysis has iterated between observations and interviews, between different cases, and between readings of the empirical material with readings of the literature. It has therefore drawn inspiration from Alvesson and Kärreman's (2007) abductive approach for theorising in which "breakdowns" are encouraged and expanded. These breakdowns are occasions the researcher finds curious, odd or intriguing, indicating that current understandings of a phenomenon are underdeveloped, and that the empirical material problematises existing theory. Most important is that "[b]reakdowns create spaces where imagination can be put to work" (Alvesson and Kärreman, 2007, p. 1266), and the abductive

iteration has generated research findings which would have been impossible via pure inductive or deductive approaches.

Many breakdowns during a PhD process emphasise the need for additional readings or different ways of approaching such literature (Alvesson and Kärreman, 2007)—and many breakdowns have been shown to be less novel than originally thought. However, breakdowns also inspire new ways of collecting material. The three studies have been conducted successively, and additional considerations were thus included as the dissertation progressed. The three empirical cases have influenced and inspired one another and, in various ways, contributed to the overall project on the pursuit of relevance.

Case-work

Although relevance takes different forms and appear in different places, there are some cases that seem more interesting than others before entering the field. Clearly, the theoretical emphasis of this dissertation has developed throughout my writing process and it would be a mistake to view the case selection as an a priori attempt to gain insights I have received afterwards. I have, however, chosen cases based on situations in which the conceptualisations of either information or analysts' activities are problematic. This, together with issues of access, as well as personal interest and curiosity, have guided my case selection.

Each case selection here is discussed along with a description of the material collection and the preliminary empirical analysis. All papers were formed after writing the empirical narratives, with the final analysis and structure for each paper created after choosing the theoretical perspectives. The final analyses are presented in the papers themselves, but here I also develop some of the rationales behind such analysis.

Intellectual capital in capital markets

The first study was originally based on the irrelevance investors and analysts attribute to intellectual capital (IC) information (García-Meca, 2005; Johanson, 2003; Mouritsen, 2003), hence information about intangible resources largely excluded from financial statements. Given a functionalist view of IC—what has been called the first generation of IC research (Catasús and Chaminade, 2007; Guthrie et al., 2012)—this information is theoretically crucial for valuation purposes but is in contrast commonly viewed by practitioners as unimportant.

To explore this information paradox (Abhayawansa et al., 2015; Bukh, 2003) I chose to target interim reporting rather than more emphasised annual

report. As previously explained, analysts and fund managers view interim reports as their most important written information sources, and such reports are therefore argued to have higher impacts on the stock market (Barker, 1998; Griffin, 2003). Additionally, the study includes earnings presentations—interactions in which interim reports are discussed (more details are provided in the subsequent section)—because analysts and fund managers attribute even higher importance to face-to-face interactions with managers (Marston, 2008). The premise was thus that, if IC is driving market values, and market values are in turn driven by the analysis and discussion of interim reports, IC should be present within such disclosures. The remaining question was how they achieved this.

I chose to follow the interim reporting practices of one particular firm, the online gaming company Hermes (pseudonym).¹³ I wanted to investigate a firm in which standard accounting reporting is ostensibly insufficient in order to present the value-making resources of the firm. Hermes is a knowledge-intensive and technology-driven company and, in combination with their large discrepancy between market and book values of equity, exhibit a high importance of IC (Lev and Sougiannis, 1999). That Hermes was chosen in comparison to other firms in similar situation is due to their unusually large collection of historical earnings presentations, making it possible to trace their reporting practices over four years and compare the written reports with their presentations.

In terms of empirical collection, the accounting reports, presentations, and presentation materials were collected from Hermes' investor relations website. Therefore, observations in the empirical overview (Table 1) have different meanings in the different studies. Here, observations consist of the recorded videos on historical earnings presentations and are thus collected without interaction between the observed and the observer. They are treated as observations rather than documents, however, because the recorded interactions are live-feeds from the actual earnings presentations and not scripted and edited promotional videos. The videos show the interactions between managers and analysts during the meetings.

The observations were complemented with interviews with Hermes' CEO, CFO, and three analysts following the firm. The interviews emphasised the interviewees' work with accounting reports and earnings presentations (both from preparer and user perspectives), how key resources are communicated and assessed, and their general views on investor relations activities, financial reporting, and face-to-face interactions.

¹³ In retrospect, the pseudonym is unfortunate given possible confusion with other existing firms, although these operate outside the gambling industry. The pseudonym is a residue from previous versions of the paper, which investigated several firms and also included a bank and a pharmaceutical company. The cases were given pseudonyms of Greek deities of wealth, medicine, and games, respectively.

The first analysis of the material was made based on an IC classification in order to assess what type of capitals are present, and whether they are located in the report or in the presentation (as has been done by e.g. García-Meca et al., 2005). A model for IC disclosure developed by Bukh et al. (2001) was therefore used as a matrix to analyse whether information on human capital, relational capital, or structural capital were present, if they were discussed as resources, activities or results, and if expressed in numbers, images or narrative form. A special emphasis was given to the resources the interviewees argued as most important for the value of the firm and how such key resources are presented to the capital market community.

This classification was however abandoned after a performative approach to IC was adopted (Latour, 1986; Mouritsen, 2006) as may be seen in the final version of the paper. This analysis instead follows Mouritsen's (2006) call to: "look for how actors mobilise IC elements, how the IC elements are connected and allowed to do certain things but not other things" (p. 823). This implies the abandonment of pre-decided categorisations and instead analysing how IC is mobilised in communications to persuade others and what IC then becomes within such interactions.

The adoption of a performative IC approach equally problematised the analysis because IC itself was never mobilised (cf. studies on intellectual capital statements Giuliani and Marasca, 2011; Mouritsen et al., 2001). Instead, the analysis emphasises the reporting practices of earnings announcements and earnings presentations,¹⁴ respectively, as to identify how the disclosures created cohesive networks of the presented material (Mouritsen et al., 2001). Whereas the first analysis classified and organised IC elements, the final analysis investigated how these elements were mobilised in the various disclosures, how they were related to one another, and how they aid the managers to tell the story of a capable firm (Mouritsen et al., 2001). Particular emphasis was given to how the numerical information is structured in various illustrations and combinations (such as figures and tables) and the narration managers' provide to explain them.

Public analyst-manager interactions

The first case study also increased my interest for earnings presentations. On one hand, this is because of difficulties within the literature explaining the importance of face-to-face meetings (Barker et al., 2012) and, relatedly, because they challenge my own understanding of accounting and analysts. Earnings presentations take place shortly after the accounting report has been released, and managers then meet their analysts for a face-to-face presentation (including Q&A) in which also fund managers, private investors, and journalists attend. Presentations are commonly video-

¹⁴ Called conference calls in the paper.

recorded, which enable international participants to watch and ask questions in real time (Roelofsen, 2010).

The presentations are commonly thought of as clarifying published material (Tasker, 1998) and public communications have been argued to be too fragmented to be relevant in itself (Holland, 2005). The presentations thus suffer from similar information problems as discussed by Barker et al. (2012) in the context of private meetings. Open earnings presentations are not fully prohibited from the disclosure of price-sensitive information (as are private meetings) (Bushee et al., 2003), but there are inconsistencies between findings suggesting that presentations contain useful information (Bassemir et al., 2013; Matsumoto et al., 2011) and (anecdotal) interview findings, suggesting that analysts perceive presentations as irrelevant (Barker, 2000; Brown et al., 2015). Reporting seasons are extremely busy for analysts (Blomberg et al., 2012), yet they attend these meetings and ask questions despite the possibility to silently follow the live webcast. Active participation includes risks of losing face or giving away private information (Bowen et al., 2002; Brown et al., 2015) and the active participation of analysts (Blomberg et al., 2012)—including star analysts (Mayew et al., 2013)—suggest that both notions of relevance, as well as the activities of analysts, can be extended by an exploration of these events.

I initiated this study by contacting all firms currently listed on the Stockholm Stock Exchange (~280 firms), either via e-mail or telephone, to map current presentation practices. Less than 20% of the firms chose not to offer presentations at all, whereas around 25% held face-to-face presentations each quarter, and the rest alternated between face-to-face and telephone conferences. Large cap firms were more likely to offer face-to-face presentations and small cap firms more often held closed presentations without webcasts or no presentations at all.

I here target face-to-face presentations to explore the social interactions between analysts and managers at length and attended presentations of 38 firms with varying characteristics (more details in appendix 1: tables for papers 2 and 3). The multi-firm focus is, in some regards, losing empirical depth (Vaivio, 2008) but in contrast to the first study, I chose here to treat presentations as recurring events for analysts rather than a disclosure practice for particular firms. Earnings presentations were thus treated as an important event in which both analysts and accounting—and therefore relevance—had to participate (Burrell, 2009). All firms were attended once, and I attempted to be the first participant arriving and the last leaving. This enabled numerous informal discussions with the attendants and also observations of participants' interactions before and after the formal presentation. Such observations are inaccessible when assessing transcripts or recordings.

Interviews were held parallel to the observations and mostly targeted analysts and managers. However, I also approached organisers of analyst

rankings and earnings presentations, as well as a fund manager, after their importance was emphasised in interviews. The interviews lasted 30–100 minutes and mainly explored: the interviewees' work assignments and professional roles; the preparations and analysis of accounting information (predominantly interim reports); the preparations and usefulness of earnings presentations and face-to-face meetings; and the evaluation of analysts' performance. The interviews also discussed peculiarities from my observations and elaborated on issues the interviewees themselves brought up. For instance, analyst rankings and broker votes were not part of the initial interview guide, but were included after repeated emphasis by interviewees.

All interviews but one were recorded, which facilitated a more relaxed interview setting and a more fruitful and interactive conversation (Kreiner and Mouritsen, 2005). Due to difficulties of gaining access to interviews (see also Hellman, 2000; Hägglund, 2001), however, I also included the interviews from the first study, bringing the total number of interviews to 21. The interview findings are not explored at length in the first paper and the topics are largely overlapping. This implies that two senior managers are employees of Hermes and three of the analysts cover (or covered) Hermes. The analysts differ substantially in their other firm coverage, plausible because Hermes is not an easily classified firm (Beunza and Garud, 2007; Zuckerman, 1999).

The analysis for this study first began by re-listening, transcribing, and/or summarising the recordings and available notes. Videos of the presentations were collected and, if transcripts existed (16 presentations), these were carefully checked for accuracy. Remaining recordings were transcribed (13 presentations), and in non-recorded presentations (9) the extensive note-taking was summarised. This activity has been shown crucial because the empirical material was listened to, watched, read, and written at the same time, combining a multitude of tacit and explicit facets of communications (Clifton, 2006). This also highlighted the interactive nature of the conversations and the role of the researcher in the produced results (Kreiner and Mouritsen, 2005). Reading a transcript a second time is different from listening to the tapes, and when quotes are organised into themes further aspects are lost and gained (Taylor et al., 1996).

The first organisation of the material aimed to reach an emic understanding of the interactions (Clifton, 2006) and broadly investigated “what was going on” at an earnings presentation (Catasús and Johed, 2007). The first narratives described the interaction-patterns of an average presentation and—although substantially revised—this analytical structure is preserved in paper 3. This includes trying to understand which participants are present, how they behave during different episodes of the presentations, and explore what are acceptable conducts within the interactions. At the same time, a rough coding was applied to the interview material to

understand: a) conceptualisations of analysts' roles and activities; b) the organisation of sell-side firms (including evaluations of analysts); c) the use of accounting information; d) how information was conceptualised; e) the rationales for analyst-manager interactions, and; f) analysts' interactions with clients. This coding was preliminary, non-exhaustive, and overlapping, and mainly aimed at interpreting the rich material.

Finally, the analysts' questions and the managers' answers (~800 question and answer pairs) were categorised based on an internally generated coding system inspired by speech act theory (Searle, 1969), focusing on what items managers and analysts discuss, in what ways the questions are posted, and how managers answer (each with respective sub-categories). As in the first study, the result of categorising questions and answers was abandoned and should be viewed as useful because it enables me to work with the material beyond reading it.

When the paper narratives were later being formed, however, the method theories offered new ways of approaching the material. I found the conceptualisation of Q&As as speech acts (Austin, 1962) rewarding because it allowed for information enquiries to be interpreted as more than message exchanges. As explained by Taylor et al. (1996):

Sit down beside someone in an airplane and strike up a conversation: If they don't reply - even if they would prefer not to - they risk seeming rude. Ask a question and you expect an answer. Ask somebody to do something and if they don't do it you wonder why not. Make a promise and you expect to be taken seriously (pp. 10–11).

I eventually found perspectives that also allowed me to use speech act theory in the sociological sense (Butler, 1996; Potter, 1996) rather than the linguistic interpretation (e.g. Searle, 1969). Foremost, sociological interpretations of speech acts takes Austin's (1962) arguments of "total speech situation" seriously and that an act is not performed by the questioner, but through the entire situation in which s/he is allowed to speak (Taylor and Cooren, 1997).

The first paper on earnings presentations is therefore organised around the theoretical constructs of actualisation and textualisation (Taylor et al., 1996), part of a more recent development of speech act theory. These are further explained in paper 2, but can briefly be denoted as the circumstances in which a speech act is produced and how such action is narrated and made re-communicable. Therefore, this theory allows an exploration into the information benefits of these interactions, but also interpret them from constructionist perspectives rather than mere revelations of information.

Despite focusing on the "total speech act" (Taylor et al., 1996), however, the emphasis on information implies that many aspects of the interactions are excluded from the first paper draft. The second paper produced from this

material is thus an initial reaction to some of the findings I could not explore given speech act theory alone. The second paper instead adds a perspective from social theory, which explicitly explores face-to-face interactions—a dramaturgical analysis as developed by Erving Goffman (1959, 1961). This paper returns to interaction-patterns of the presentations and employs Goffman’s concept of role performance to study them. This analysis emphasises how analysts and managers interact and how they prepare for their interactions. Additionally, such analyses highlight the ways in which their performances change throughout the interactions and their differing role performances when faced with different audiences.

Investment bank ethnography

The final study at the equity sales desk was conducted together with a colleague in one of the world’s leading financial centres.¹⁵ Although my previous interviews discussed the analysts’ in-house practices and organisation, I lacked observational data of such “back stage” regions (Goffman, 1959) and the final empirical study widens the scope of the dissertation. Ethnographic studies in equity markets are very rare and such lack of studies is predominantly an issue of access (the few examples include Beunza and Stark, 2004; Gniewosz, 1990; Knorr Cetina and Bruegger, 2002; O’Barr and Conley, 1992). After negotiating the terms of our study with the head of equity sales and the compliance officer, we gained access for one visit on condition that no recordings were made, that we quietly observed when their activity was high, that full anonymity was upheld, and that we did not use the information for trading purposes. After each visit we had to negotiate further access to be able to return.

We made a total of four visits over the course of a year, leading to 12 days and over 100 hours of observations. We planned our visits during reporting season due to our interest in brokers’ analysis of accounting, but also upon advice by the head of equity sales because these periods have higher in-house activities. Although our study is not as lengthy as ethnographies in other fields (Goffman, 1989; Verran, 1998), it is comparable to other ethnographies in accounting studies (Ahrens and Chapman, 2006; Kornberger et al., 2011) and mostly ethnographic in the sense of exploring the activities and assumption of the participants on site (Van Maanen, 2006). The observations include brokers’ formal morning meetings with analysts, their general work activity, their interactions between each other, as well as with clients and analysts throughout the day. Access to the sales desk was granted during the entire day and we were

¹⁵ We had to anonymise the city in which research took place, but it should be acknowledged that this is not research conducted in Stockholm.

strategically placed in various locations in the room, often experiencing the same situations from different angles.

We also conducted 40 formal interviews with brokers, sales traders, and the compliance officer, in which we sat down in a separate room and discussed the day, usually lasting from 30 to 80 minutes. We asked them to explain observations we had made but also develop their general practices. As we conducted repeated interviews with most interviewees, we were also able to expand and continue discussions of previous visits. Most interviews were conducted by me and my colleague together, which enabled one of us to lead the interviews, whilst the other took extensive notes. We also conducted more informal additional interviews at the brokers' desks when they showed us their communication and trading systems or—as was the case with the sales-traders—when they had difficulties leaving their computers. Finally, additional discussions took place in the coffee room and over dinners.

Based on interview findings and observations that brokers put high stakes in some of their recommendations, we chose to focus on how the brokers developed cases. This follows Bence et al.'s (1995) emphasis on studying how information usage is formed in relation to a particular firm—a strategy repeated by other scholars (Beunza and Garud, 2007; Hellman, 1996; Hägglund, 2001). Indumine¹⁶ was chosen after about half of our observations had been conducted, as this was a case that stood out in many ways for us (as further explained in the paper). Given that we made subsequent visits after our interest in Indumine began, we could target our data collection more specifically towards this case, making sure interviews covered its development. Furthermore, we approached the brokers for formal documentation on Indumine and received analyst reports and morning meeting material from the start of the case.

The empirical material was first analysed by a rough transcription as soon after the observations and interviews as possible. Observation notes were collected both on paper and digitally, and the days of observation usually ended with late nights of re-writing and summarising the overwhelming amount of impressions collected during the day. As we were two researchers conducting observations and interviews, we also had repeated discussions concerning our findings, both on-site and back at the office. First empirical narratives included general activities at the desk, how they used information and their communication with other parties. When deciding to follow Indumine as a case, however, all material related to the case was collected in a single file and organised chronologically as to trace its development. Empirical research questions of how the case started, how it was sustained, and how it was abandoned guided the original versions. As the theoretical

¹⁶ Pseudonym for the share the brokers at Bauer bank decided to focus on and develop as their case, see more in paper 4.

notion of “equity broker dilemma” was developed (see paper 4), further importance was given to issues of how brokers managed their involvement towards the case and how they distanced themselves from its downturn.

Writing problems

Treating financial analysis as a social and institutional practice has been challenging in terms of writing research problems. Literature strands on information and relevance are broad and dispersed, but the sociology of financial analysis lacks research findings. In fact, although the study on IC was written early on, it was still relatively easy to problematise because of the large literature on interdisciplinary perspectives available (see Guthrie et al., 2012). When targeting financial analysis literature more generally, I have found myself reading broadly—often with limited results—and many research problems have been abandoned in this process.

Problematism may be viewed as a dual process of constructing intertextual coherence—hence organising existing literature in certain ways—and then problematise such literature in terms of inadequacy, incompleteness or incommensurability (Locke and Golden-Biddle, 1997). A recent critique suggests that business studies tend to search for gaps in literature rather than problematise the theoretical arguments made (Sandberg and Alvesson, 2011) but this seems to be less of a concern within the sociology of financial analysis. There is no synthesised literature in which a gap needs to be identified, and this is evident not least in frequent calls for extending research (Imam et al., 2008; Vollmer et al., 2009), but also for instance in that Fogarty and Rogers (2005) justify their approach mostly by the “[...] absence of a sociology of financial accounting in the academic literature” (p. 331). Additionally, the more recent work of Barker et al. (2012) and Imam and Spence (2016) use economics-based paradoxes in problematising. In Barker et al. (2012), the problem relates to how information, despite not being allowed, is conveyed at private meetings, and Imam and Spence (2016) ask why sell-side professionals are useful despite obvious biases.

Being interested in capital market phenomena thus means that one may take different strategies when constructing intertextual coherence, and this brings concerns about the nature of a research field (Nadai and Maeder, 2005). Equally, the process of problematising also brings questions concerning research findings’ (in)commensurability (Burrell and Morgan, 1979). This is important because not only gap-spotting but also problematisation (Alvesson and Sandberg, 2011) is challenging without this synthesised literature. Behavioural finance, critical finance, and social studies of finance tend to theorise by problematising the assumptions of rationality or perfect information, as assumed by economic theory (Barry

and Slater, 2002; Coleman, 2014). As argued by behavioural finance scholar Meir Statman (1999), “[s]hooting arrows into the soft spots of standard finance was great fun—especially in the 1980s, when behavioural finance had few spots, soft or hard, to serve as return targets” (p. 18).

I think the research problem in Beunza and Garud’s (2007) study of analysts as frame-makers is representative of these issues, being one of few papers in social studies of finance which target sell-side professionals. The authors (*ibid.*) craft their research problem by broadly categorising the literature on analysts into calculators (economics), lemmings (psychology and institutional sociology), and critics (sociology). Beunza and Garud (2007) invalidate the first two approaches due to an over- and an under-emphasis on analysts’ calculation, respectively, and extend the critics-approach—mainly represented by the work of Ezra Zuckerman (1999, 2000). This categorisation is later repeated by Imam and Spence (2016), who chose instead to add a fourth perspective. This is because they claim that:

[...] conclusions are arrived at on the basis of different methodological assumptions and, when compared, say more about the schisms within academic research than they do about analysts. The academic social context can paradoxically hinder a more generalized understanding of social phenomena. (p. 231)

I sympathise with Imam and Spence’s (2016) arguments here, yet find it problematic in terms of how perspectives are bracketed. Financial analysis is a large body of literature on a particular practice and I intend to bring contributions to this field. At least, although findings usually are interpreted via an economic theoretical lens, it is likely that they touch upon issues which are also important in practice, not least because quantitative research tends to interact with—and thus informally interview—practitioners (Groysberg and Healy, 2013)

The main problem I find with taking a critical stance (cf. Coleman, 2014) is the “[...] vain attempt, a delusion, that [one] might convince economists” (Barry and Slater, 2002, p. 301). Critical insights do not seem to impact economists (Merchant, 2008), and I furthermore feel that enacting the critical position reconfirms the dominant perspective within a subject. In so doing, I also fear that one fails to engage in fruitful debates regarding capital markets. As argued by Stoner and Holland (2004), “[f]inance theory and its market based approach has probably been the big success story in economics in the past forty years” (p. 51). The influence of economists on financial markets is thus abundant (MacKenzie, 2006; Preda, 2009b), yet the performativity of social understandings of market is less evident.

I instead approach these issues by dividing my studies into sections of domain and method theories (Lukka and Vinnari, 2014). The distinction between these two types of theories is not without criticism (Lowe et al.,

2016), not the least because of difficulties in defining a domain and whether method theories are in fact just employed or if they too are becoming theories of accounting (ibid.). I do however find it rewarding because it enables me to make insights into accounting, users, and capital markets more broadly rather than problematising a particular understanding from an underdeveloped research field.

The domain theory includes financial analysis in various forms and, whereas this introduction problematises the concept of relevance more broadly, the individual papers problematise available (social) understandings of financial analysts and analysis. In order to support such problematisation, however, I have also had to narrate quantitative findings into more constructionist thought. For instance, the finding that earnings presentations have information benefits when measured in analysts forecast dispersion (Irani, 2004; Kimbrough, 2005) suggests that the analysts have moved towards consent on their calculative frames (Beunza and Garud, 2007), and, thus, this social interaction is used to congregate diverging interpretations (see paper 2). Equally, the sections in the introduction of stardom and conflicts of interests are foremost drawing on findings from financial economics although reputation and dependencies are very much social phenomena.

I have done this with care, though, because there are research methodologies and arguments I would not want to use in my problematisation. For instance, I find forecasting accuracy to indicate the release of information in some form, but I remain sceptical towards findings measured in stock market movements. The link between that which should be informative and how such information is measured has too many unexplored mechanisms for me to comfortably use it when problematising. Furthermore, this narration has also created other problems, not least in review processes, because by narrating others' findings through constructionist arguments, it has been perceived as if my conclusions are already made in other papers.

Enrolling method theories

As argued by Vaivio (2008), “[w]ithout bold interpretation and theorizing, the qualitative study is just a collection of engaging field detail” (p. 76). Therefore, I discuss my findings in the light of theories emphasising social interactions in their own right. My method theories are mostly from sociology and thus not theories to which the dissertation explicitly aims to contribute, but are seen as tools to craft contributions to issues in financial analysis. The method theories used in the paper are a combination of (a) actor-network theory (ANT), (b) Erving Goffman’s dramaturgy, and (c) text-and-conversation-theory as developed by, amongst others, James R. Taylor

and François Cooren (Cooren and Taylor, 1997; Taylor et al., 1996). The theories, and their specific application, are developed in each paper, and this section merely gives a brief account in order to discuss them in combination.

The first method theory, ANT, originated in science and technology studies (Latour and Woolgar, 1979), with the broad aim of understanding how scientific and technological facts are constructed (Latour, 1987). This theory has influenced the performative approach of accounting research (Mouritsen, 2006), which shifts emphasis from a view of accounting as influencing decision-making to exploring how accounting is translated by organisational participants (Catasús et al., 2007). Accounting research therefore commonly employs ANT to analyse accounting change (Justesen and Mouritsen, 2011), because ANT is particularly well-suited to follow the processes in which something is constructed. It foremost investigates how:

[...] accounting practices and technologies partake in construction processes and how multiple, and sometimes surprising, effects are generated as a consequence (Justesen and Mouritsen, 2011, p. 165)

Central to an ANT approach is exploring how heterogeneous elements—social and natural, human and non-human—are translated and assembled into an actor-network. Foremost, this implies that things are “[...] made to exist by its many ties: attachments are first, actors are second” (Latour, 2005, p. 217). A priori constructs which are otherwise treated as explanatory—such as the social—are here abandoned (Callon, 1986) and the ANT approach instead “follows the actor” to arrive before controversies are settled and constitutive links are concealed (Latour, 1987).

Goffman’s (1959, 1961) dramaturgical approach to social analysis, on the other hand, emphasises situated face-to-face activity and how participants interact when in others’ immediate presence. Goffman (1959) studies the presentation of self, meaning how actors perform their expected roles in particular social settings with certain audiences. The central concept in a dramaturgical analysis is performance, thus exploring how individuals perform their “obligatory bundle of activities” (Goffman, 1961, p. 86). This analysis includes both participants’ impression management within the performances themselves and their preparations to produce such a performance. Goffman’s dramaturgy is not as extensively adopted in accounting studies as ANT, but examples include issues of how fund managers’ impression management techniques support managers instead of holding them accountable (Solomon et al., 2013). Other studies emphasise how the expertise of accountants or auditors are dependent on how such roles are enacted in interactions with others (Ahrens and Chapman, 2000; Pentland, 1993).

Finally, text-and-conversation theory (Fauré et al., 2010; Taylor et al., 1996; Taylor and Robichaud, 2004) explores the interplay between

communication and organisation. This theory is drawing on speech act theory (Austin, 1962) and criticises arguments that communication is to be found within organisations (also Hines, 1988). This is because “[...] the properties that we recognize as organizational are in the communicational lens, not in the object they are focused on” (Taylor et al., 1996, p. 3). The authors (*ibid.*) instead treat communication as organising and emphasise a double translation from texts (representations and the durable fabric of the organisation) to conversations (text-mediated actions) (Fauré et al., 2010). The theory thus addresses how communicative events construct and reproduce organisational realities (Fauré et al., 2010) and how conversation coordinates their participation around a specific view of the firm (Fauré and Rouleau, 2011).

Neither text-and-conversation theory is extensively employed in accounting studies, but when introducing the theory to this field, Fauré et al. (2010) claimed that such a perspective enables an exploration into the ongoing in situ discussions of accounts and how such conversations influence organising. They specifically showed how conversations structure accountability relationships when accounts are negotiated, and that participants imbue the numbers with certain ways of interacting (Vollmer, 2007).

Employing different theories in a dissertation brings concerns whether they may be used together and, if so, what different aspects of the issue under investigation they contribute to. As previously stated, the papers should not be seen as providing a multiple case study and no attempts are made as to establish an all-encompassing theory. Combining three different theoretical streams is a challenge and the same method theories would most likely not be employed if this had been a monograph, as they are not combined in the individual papers.

They do however have virtues in being combined, evidenced by studies drawing on both ANT and Goffman (Callon, 1998; Vollmer, 2007), as well as the combination of ANT and text-and-conversation theory (Cooren and Taylor, 1997; Fauré et al., 2010; Taylor and Robichaud, 2004). Furthermore, all theoretical strands claim the importance of Austin’s (1962) notion of speech acts and embrace ideas of performativity (Butler, 2010; Law and Singleton, 2000). Performativity is a concept employed extensively and therefore has different connotations in different fields. Broadly, such approaches acknowledge that performances enact realities and that, if felicitous, these enactments alter the reality performed (Austin, 1962).

Additionally, the theory with the latest origins and which directly concerns business studies—text-and-conversation theory—is inspired from both ANT and dramaturgy. The former is particularly evident in Taylor et al.’s (1996) rejection of an organisation as an a priori entity, and their refusal of viewing organisation and communication as two separate occurrences. Moreover, despite only people being able to perform speech acts, text-and-

conversation theory emphasises “[...] how material objects and tools, as well as people, play a constructive role in constituting agency” (Taylor and Robichaud 2004), hence highlighting the importance of both human and non-humans actors as discussed by ANT. Finally, text-and-conversation theory follows Goffman’s (1974) notion of interactions being framed (textualised) in order to draw on such arguments in future interactions.

More importantly, the theories here are adopted to understand relevance and the activities of sell-side professionals differently. For instance, ANT is used in the first paper to explore how accounting is mobilised and translated into networks (Mouritsen et al., 2001). By drawing on a performative approach to IC (Mouritsen, 2006), ANT there allows for an understanding of how various disclosures are combined and used to construct the “capable firm”. In the fourth paper, on the other hand, ANT is used to explore how an investment case is supported and thus follows an investment recommendation in action (Latour, 1987). Whereas the first paper explores how various information sources are combined to stabilise the firm, the fourth paper addresses how brokers use accounting to produce something which is different from this shared understanding of the firm.

Additionally, although ANT and text-and-conversation theory share underlying arguments concerning the constructed nature of accounting and organisations, they approach the matter differently. They share the theoretical argument that objects are unique, but, in ANT-studies, this is foremost addressed by following an object’s formation (as is done in paper 4). Text-and-conversation theory on the other hand explicitly down-plays the focus on objects and instead emphasises the formats of communication (as is done in paper 2). This is because “[t]he organisational conversation may be structured but its outcomes are, however, never totally predictable” (Taylor and Robichaud, 2004, p. 405). Text-and-conversation-theory may thus be understood as investigating the communicative practices that produce many different objects.

Finally, although both text-and-conversation theory (paper 2) and dramaturgy (paper 3) are used to explore the interactions of earnings presentations, they target different aspects. Text-and-conversation theory is used to address the development of analysts’ interpretive frameworks (Beunza and Garud, 2007) within the interactions. The dramaturgical analysis instead emphasises the accounting users themselves and how they perform their roles in interactions about accounting. As relevance is the relationship between accounting and users, the two different papers enable an exploration into this relationship from both an accounting and a user perspective.

Introducing the papers

The four papers that constitute this dissertation all add to the notion of pursuit of relevance, albeit in different ways. The use of relevance is sparse in the papers and this section not only introduces them, but also explains how they add to the general aim of this dissertation and how they complement and contrast one another.

Colouring the numbers

As introduced in previous sections of this dissertation, the first paper is situated in the intellectual capital (IC) literature, hence the study of measuring, reporting, and managing intangibles. The paper expands on the paradox in which intellectual resources are believed to drive the values of firms, yet, at the same time, analysts and investors seem to be only superficially interested in information concerning such resources (García-Meca, 2005; Johanson, 2003). The paper further addresses theoretical concerns (Dumay, 2012; Mouritsen et al., 2001) regarding the dichotomisation between IC information and financial information and investigates how such information interact and complement each other. The paper explicitly contributes with an investigation of how managers mobilise IC when approaching their analysts and investors.

In relation to the study of relevance, the paper therefore does not target the activities of users and, in fact, investigates the communications of managers before analysts begin to interact. Instead, the paper addresses how information, which is commonly perceived as irrelevant for accounting users, also pursues relevance; it is information in search of a user. Targeting how presumably irrelevant information is narrated is important because it explores how accounting and ostensible “non-accounting” (Catasús, 2008) is communicated to sophisticated accounting users. The study thus gains insights into assumptions of companies regarding users’ information needs via how they choose to frame their information.

The paper finds that IC is used to explain the firm’s financial development, thus mobilised as symptomatic links (Vollmer, 2007) between accounting numbers and the items they are believed to represent. With this primarily taking place when the actors meet face-to-face, it is argued that these links gain strength via the managers’ narration. The earnings

presentation is a dramatisation (Catasús and Gröjer, 2006) of accounting metrics, meaning that the numbers with their own dramatic qualities are arranged together with the story of the firm.

It is worth noting that the first article in the dissertation is also the first article written and should be viewed as inspirational for subsequent ideas. It was published early on, and other choices would have been made if written today. Excluding the explicit contributions to literature, however, the paper also contributes with new insights to the dissertation as a whole, creating other ideas, empirical projects, and papers to be developed.

Framing information

The second paper also investigates information, but this time in direct relation to the activities of analysts. The study takes the unusual information content of earnings presentations as a starting point because the recorded positive impacts on analysts' forecasting abilities are not supported by analysts' narratives. These instead suggest that the public nature of the events refrains analysts from asking questions and that they only receive limited information.

This paper therefore takes seriously the claim that “[...] relevance has a subjective component [because] people do not always share the same model of the world” (Gorayska and Lindsay, 1993, p. 307). Theoretically, the paper expands Beunza and Garud's (2007) claims of analysts as frame-makers, meaning not only that analysts' information usage is governed by calculative frames, but also that analysts produce and circulate these within equity markets. Relevant accounting is assessed by “schemata of interpretation” (Goffman, 1974, p. 21) and these frames both direct and limit the view of its users (Preda, 2009a). The paper adds to the frame-making perspective by exploring interactions where information, and thus the calculative frame, is enacted and negotiated. By doing so, it address a theoretical issue in that frame-making tends to view analysts as “unable to look beyond their own models” (Imam and Spence, 2016, p. 213). Unless in times of radical changes to the firm, analysts are theorised as mainly classifying information into existing frameworks (Zuckerman, 1999) and further frame-making is largely unexplored.

The paper uses text-and-conversation theory to explore the continuous organisation of frames by both emphasising how these are actualised (used in interactions) and later textualised (how interactions are framed). The paper claims that the interactions between analysts and managers at earnings presentations also imply an interaction between accounting and analysts' calculative frames. By exploring more carefully a practice the analysts referred to as “reactive activities”, the study finds that accounting information overflows the expected development for the firm and that such

overflows must be organised. Deviations need to be established as irrelevant, as one-offs, as the new normal etc. and this, in turn, implies an organisation of the frame. In order to make such explanations relevant to clients, analysts' draw on claims of experience and emphasise their proficiency in the communication styles of managers. Furthermore, by doing so, they are able to narrate the communications made by managers and attribute them a variety of characteristics.

Equity market interactions

The third and final paper addressing earnings presentations takes a different approach to relevance than the investigation of accounting. Relevance is the relationship between accounting and users and this third paper instead analyses how the role of a sophisticated accounting user is performed and how claims of expertise are played out. Since earnings presentations are events where analysts not only need to gain information but also nurture their relationships with managers and clients, the study investigates how analysts perform their presumed roles in front of important audiences. Although insights have been made on the impacts of private face-to-face meetings (cf. Roberts et al., 2006; Solomon et al., 2013), the earnings presentations imply that analysts not only interact with the managers they are supposed to review, but also in front of their clients which they are supposed to convince of their expertise.

This study therefore puts less emphasis on accounting information and instead follows the role performances of a sophisticated accounting user. The study addresses the issue of how the presumed roles of critic, sophisticated user, and star are enacted. Earnings presentations are in the paper found to be divided into separate episodes and that analysts behave differently in them because of changes in audiences and role scripts. Furthermore, when cameras are turned on during the formal presentation, analysts face role conflicts because managers and clients have different expectations for how analysts should behave. Managers retain influence over the analysts and, in order for analysts to perform the role of independent reviewer, they enact role distance techniques when interacting with managers alone. Furthermore, they prepare their conducts extensively in order to avoid disturbances to both their and managers' performances. The study shows analysts' dependencies on managers and clients not only in terms of biases or conflicts of interests, but also in order to take the role as expert critic.

The equity broker's dilemma

The fourth paper draws on the broker room ethnography and develops the notion of the “equity broker's dilemma” (Latour, 1987). This dilemma relates to brokers' issues of gaining rewards and recognition of their investment cases which tends either to be too weak or too strong. In order for a case to materialise it needs support by others, but with more supporters for a case the brokers' individual contribution may be reduced and/or the case may not materialise as they propose.

Paper 4 is thus less of a direct continuation of the previous papers, although it shares many of their interests. The pressure from brokers is evident in both papers 2 and 3, but this study brings the dissension seeking brokers to the forefront. Additionally, it problematises the issue of sell-side professionals as a homogenous group under the term “analysts”. The focus on brokers, we argue, offers an opportunity to investigate issues of consensus formation and dissension driven market activity (Lee, 2001; Zuckerman, 2012a).

By theorising an investment case as a quasi-object (Latour, 1993), the paper therefore shows how the case is initiated, sustained, abandoned, and later offering the brokers rewards and recognition. It especially identifies how the use of accounting in relation to the investment case is driven by a singularisation of responsibility, as a way to mark distance towards others, and, when the brokers' contributions are at stake, to fuel interest by moving to other items or investment objects. Furthermore, we find that high stakes towards particular accounting items relieve the brokers from blame if the case fails. Therefore, relevance implies that the use of accounting is important to manage users' relationships with the investment case and that certain numbers become existentially linked (Vollmer, 2007) to the brokers in this process.

This is the end of this introductory section and I hope that any reader who has made it this far has a richer understanding of the current state of relevance research and the social and organisational context sell-side professionals are facing in their everyday analysis. I also hope that the reader has an understanding of the approaches I have chosen and the challenges I have been facing in this process. The following papers deal with individual theoretical and empirical issues and are written to stand on their own. The text will return to the general question of how accounting is relevant to users after presenting the papers.

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