Sell-Side Analysts' Creation of Value -

Key Roles and Relational Capital

Jeaneth Johansson
Accounting and Control
Department for Business Administration and Social Science
Luleå University of Technology
Postal address: SE-971 87 Luleå
Phone: +46 – 920 49 23 64 Fax: +46 920 49 21 44
E-mail: Jeaneth.Johansson@ies.luth.se

Companies disclose information, to present and potential shareholders, on their business in order to increase the knowledge about the company and to decrease uncertainties in company information. This information can and are often complemented by information from other sources such as from the influential group of financial analysts. The analysts act as intermediaries of information, they are expected to reduce information asymmetry between actors on the stock market and their advices also influence prices of shares. The analysts work and output of this work e.g. in form of recommendations to investors creates different values. There are values for the own organisations and values for the investors on the stock market.

The present paper addresses questions related to the understanding of the sell-side analysts' work from an organisational perspective. The analysts' work are analysed from a perspective of how their relational capital contribute to the creation of value for the own organisation, for the clients and for the stock-market. One purpose with this study is to identify key roles connected to the value-creating work. Another purpose is to analyse the results on the value-creating roles played by the analysts in relation to knowledge on traded companies and uncertainties in information on traded companies.

The study is a case study on a big Swedish investment bank including 20 sell-side analysts. Data was collected through interviews, and mapping of individual analysts' cognitive structures. The analysts related the discussion to their own work with recommendations to clients. Each analyst discussed 3-6 real life situations.

Analysts' indicate according to the study to have three key value-creating roles i.e. as information intermediaries, "knowledge builders" and salesmen for the own organisation. Values created through the different roles are sometime conflicting against one another. The relational capital connected to close relations with company representatives, clients and other key actors tend to be vital for the creation of value in relation to the three key-roles. Findings also indicate high dependency on these actors for creating values. It can be concluded that analysts' complement the companies own disclosure of information and thus help to increase knowledge on companies and reduce uncertainties in company information. However, the conflicting values connected to the three roles and the analysts' high dependency on different groups of actors also increase the risk for biasing information. Analysts' information on companies tend to be ambiguous and should only be seen as one complement to the companies own disclosure of information.