Ethics Events and Conditions of Possibility: How Sell-Side Financial Analysts Became Involved in Corporate Governance

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ABSTRACT: Mobilizing Foucault's genealogy, this article investigates how an "ethics event"—the involvement by some sell-side financial analysts in the United States and United Kingdom across the past two decades in corporate governance—emerged. It is found that the complex relations formed between specific historical precedents, normative discourses, and fields of power rendered certain issues in financial markets morally problematic and constructed analysts' corporate governance work as a potential solution. Contributing to research in finance ethics, this article develops a novel perspective to conceptualize the rise of ethically relevant practices in financial markets, focusing on how ethical problems and their solutions are outcomes of discursive construction and power relations. This article also revises our understanding of the boundary between technical norms and moral norms in financial markets. When ethical crises occur, it is argued, transforming technical practices and revising the technical norms adopted by financial professionals has the potential to tackle ethical concerns.

KEY WORDS: ethics events, Foucault's genealogy, finance ethics, sell-side financial analysts, corporate governance

Business ethics research in the past two decades seems to have taken a Foucauldian turn (Crane, Knights, & Starkey, 2008). Inspired largely by Foucault's later work on ethics, business ethics scholars have examined how individuals exercise agency and construct ethical subjects within and across organizations (Ibarra-Colado, Clegg, Rhodes, & Kornberger, 2006; Ladkin, 2018; Loacker & Muhr, 2009). Foucault's middle work on genealogy, however, is less frequently referred to (with the exception of Gardner, Stansbury, & Hart, 2010; Styhre, 2001). This is a pity, because Foucault's genealogy offers important insights into the emergence of historically specific moral norms and the formation of the moral subject (Koopman, 2013). Mobilizing Foucault's (1977, 1991) genealogy, this article seeks to contribute to finance ethics research by investigating an "ethics event" in financial markets. This event is the involvement by some sell-side financial analysts (analysts, hereafter) in the United States and United Kingdom across the past two decades in corporate governance. This article examines how the event emerged, focusing on how analysts' corporate governance work became morally relevant and generated ethical implications at a specific historical moment. This genealogical account of the ethics event under investigation provides insights into important issues for business ethicists. On the one hand, it fosters our understanding

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of how ethical problems and their solutions are outcomes of discursive construction and power relations. On the other hand, it revises our perception of the boundary between technical norms and moral norms in financial markets.

Analysts work in the equity research division of brokerage firms.[1] They specialize according to industries, and provide investment recommendations in reports for clients (Beunza & Garud, 2007; Fogarty & Rogers, 2005). While traditionally concentrating on the financial and operational aspects of companies, since the early 2000s, some analysts in the United States and United Kingdom have brought corporate governance within the boundaries of their work territory (Gullapalli, 2004). Specifically, analysts have undertaken stand-alone evaluations of companies' governance procedures (Tan, 2018). Sometimes this is part of a broader trend toward integrating environmental, social, and corporate governance (ESG) criteria into analyzing investments (Tan, 2014). Often, the governance issues with which analysts are concerned are static and structural in nature, including board independence, board size, and existence and composition of board committees. While these are readily quantifiable, they overlook the more dynamic and process-oriented aspects of the governing of corporate life (Tan, 2018). The incorporation of governance issues into analysts' work practice is documented in analysts' reports. It has also been reported in the financial press and highlighted in documents issued by the United Nations (UN), the Conference Board, and the UK Trade Union Congress (Gullapalli, 2004; Sweeney, 2004).

The role of analysts is often discussed in debates on finance ethics. With high-profile scandals in the early 2000s and the global financial crisis in 2007, understanding the causes and consequences of unethical behavior in financial markets has become increasingly important (Melé, Rosanas, & Fontrodona, 2017; Ryan, Buchholtz, & Kolb, 2010). A growing body of research examines the ethical implications of the activities performed by financial professionals (Dalton, Trevis Certo, & Daily, 2003; Donaldson, 2008), including analysts (Veit & Murphy, 1996). A range of studies focus on, for example, the conflicts of interest encountered by analysts (Coffee, 2002, 2006; Palazzo & Rethel, 2008) and the different forms of intervention proposed to enhance the moral standard of analysts, including disclosure, rules and policies, and structural changes (Boatright, 2014; Jennings, 2013). The incorporation of corporate governance into the work territory of analysts represents a change to their technical work practice. While analysts' governance work has never been prescribed in regulations or codes of ethics, as this article demonstrates, certain conditions foster its potential for alleviating ethical concerns in financial markets. Particularly, when attempts to revise moral norms through tightened regulations or

[1] This article focuses on sell-side analysts, who are often contrasted with buy-side analysts. Buy-side analysts typically work for institutional investors in fund management firms. While not producing written reports for the investing public, buy-side analysts make intensive use of sell-side analysts' reports. As buy-side analysts work on behalf of institutional investors, they have not only concerned themselves with the operational and financial aspects of corporations, but also long opined on the governance of investee companies (Gullapalli, 2004). Relative to ongoing concerns about corporate governance on the part of buy-side analysts, the relatively recent involvement in corporate governance of sell-side analysts represents a new phenomenon that deserves special consideration.

ethics codes fail, transforming the technical norms followed by financial professionals may help tackle ethical issues (Hendry, 2013).

Analysts' corporate governance work may accordingly be analyzed as an "ethics event." Inspired by Foucault's (1977, 1991) genealogy, and particularly the idea of "eventalization," an ethics event is defined here as a historically contingent, singular, and multidimensional episode where possibilities are created for ethical problems to be constructed and addressed. This article traces the multiple processes and complex relations formed between specific historical precedents, institutional dynamics, normative discourses, and fields of power, leading to the emergence of the ethics event under investigation. It analyzes the dispersed and historically specific conditions that rendered certain issues ethically problematic, and that constructed analysts' corporate governance work as a potential solution to the problems. Particularly, this article delineates a three-branch genealogy that comprises three "arenas" (Burchell, Clubb, & Hopwood, 1985), constituting the "conditions of possibility" for analysts to begin working on corporate governance at a specific historical moment (Koopman, 2013). The three arenas are: investment research, the reform of the analyst business model, and corporate governance. Each arena relates to a particular domain of operations, featuring agents and agencies associated with diverse interests and agendas constructing ethical problems, framing these problems in the name of wider concerns and ideals in financial markets, and formulating proposals to seek to address ethical dilemmas. All these circumstances combined to form a historical precedent in which analysts' involvement in corporate governance was seen as able to tackle ethical concerns identified in each arena and realize broader objectives in financial markets.

This article contributes to finance ethics research in two ways. First, inspired by Foucault's (1991) idea of "eventalization," this article advances the notion of "ethics events." By revealing the contingency, complexity, and singularity of the emergence of analysts' corporate governance work, this article generates important insights into how certain work practices adopted by financial professionals may become ethically relevant and address moral concerns within the boundary of specific time and space. The notion of "ethics events" enhances our understanding of how such practices develop, and how ethical problems and their solutions are constructed within historical and institutional contexts. Second, this article reveals an alternative way in which ethical issues in financial markets can be tackled. Regulations or ethics codes may not always be effective in governing the conduct of financial professionals. Instead, enabling these professionals to engage in new work practices and endorse new technical norms is likely to mitigate certain unethical behavior. This article echoes existing research that questions the effectiveness of ethics codes in inducing ethical behavior in financial markets (Boatright, 2010; Dobson, 2003; Ragatz & Duska, 2010). It extends that research by demonstrating that the boundary between technical norms and moral norms may be less explicit than assumed in the existing literature on finance ethics (Hendry, 2015). Transforming technical practices, it is suggested, has the potential to resolving ethical concerns.

The next section highlights the relevant aspects of finance ethics research that this article builds upon. Foucault's genealogy is then introduced, and particularly the idea of "eventalization," as well as the notion of "arena" and other related concepts that inform the empirical analysis. It then discusses the textual documents that provide the empirical material. The next section delineates the three arenas, corresponding to the multiple conditions under which the "ethics event," that is, analysts' involvement in corporate governance, emerged. Lastly, the empirical findings and their implications for finance ethics research are reflected upon before this article concludes.

ANALYSTS AND FINANCE ETHICS

Due to the highly technical nature of financial practices, there is a greater focus on technical norms than on wider considerations, such as the moral norms underpinning those practices (Brenkert, 2010; Hendry, 2013, 2015). As Dobson (1993: 61) claims, the financial market "will become more ethical if and only if financial … practitioners broaden their value base." Nevertheless, financial professionals often fail to do so, leading to ethical crises in finance (Boatright, 2014). This article concerns analysts who function as financial market intermediaries. Existing research has examined the ethical implications of the activities undertaken by analysts and other financial professionals (Dalton et al., 2003; Donaldson, 2008; Veit & Murphy, 1996). It has attended specifically to conflicts of interest, which arise because financial professionals, whose behavior is driven by self-interest, commit themselves also to act in the interest of others (Boatright, 2010; Hendry, 2015). Several studies examine how conflicts of interest trigger analysts' unethical behavior, which may lead to corporate misconduct (Coffee, 2002, 2006; Palazzo & Rethel, 2008), as well as the various forms of intervention proposed to tackle analyst conflicts, including disclosure, rules and policies, and structural changes (Boatright, 2014; Jennings, 2013).

The moral standards expected of financial professionals are commonly found in professional codes of ethics. While the Financial Analysts Federation adopted a code of ethics in the late 1960s (Caccese, 1997), these codes have become more widespread since the late 1990s (Dobson, 2003). Codes of ethics, however, cannot fully mitigate conflicts of interest. As is the case for corporate codes of conduct (Stansbury & Barry, 2007), business ethicists have questioned the effectiveness of professional ethics codes generally, and those utilized in financial services particularly, in producing ethical behavior (Brien, 1998; Dobson, 2003; Jamal & Bowie, 1995). In the early 2000s, the increasing salience of analyst conflicts of interest led financial regulators to impose stronger regulatory pressure on analysts (Coffee, 2006). The ineffectiveness of the self-regulations put forward by analysts and other financial professionals, particularly in the form of ethical codes, has triggered more formal regulatory attention (Ragatz & Duska, 2010).

As Jennings (2005: 57) argues, legislation and codes cannot change the financial services industry, but "individual actions and ethical courage can." This reflects a virtue ethics lens to understand ethical issues in finance (Moore, 2005). Dobson (1997: 16) suggests that moral behavior requires an individual to pursue "moral excellence as a goal in and of itself," instead of simply complying with rules or codes. In other words, a financial professional is expected to craft the virtuous subject and become a "true" professional, pursuing "the excellences, or internal goods, specific to his or her profession or practice" (Dobson, 1997: 24). Similarly, Foucault (1997) considers ethics as "practices of the self" rather than "moral rules and interdictions" (Crane et al., 2008: 306). This implies that to become ethical, analysts should constitute the self as an active moral agent. Nevertheless, analysts are not free of ethics codes that constitute disciplinary forces; they are enmeshed within certain "regimes of truth" that also shape the formation of the moral subject (Foucault, 1979).

This article goes beyond code-based ethics and the self-constitution of the ethical subject mentioned above. Instead, it demonstrates how changing the technical practices and norms adopted by analysts may potentially alleviate ethical concerns in financial markets. This article challenges the common perception underlying the existing finance ethics literature that the boundary between technical norms and moral norms is clear-cut. It shows that changing technical practices may have implications for ethics; however, this can only happen under certain conditions of possibility. Specifically, this article demonstrates how analysts' corporate governance work may become ethically relevant under certain historical and social conditions.

THEORETICAL BACKGROUND

Mobilizing Foucault's genealogy, and particularly the idea of "eventalization," this article examines the contingency, complexity, and singularity of an "ethics event," that is, analysts' involvement in corporate governance, and problematizes the historical conditions leading to its emergence. The notion of "arena," drawn from new accounting history, operationalizes Foucault's genealogy and enables the delineation of a multiple-branch genealogy of the event.

Foucault's Genealogy

Foucault's genealogy is a framework for writing an "eventalized history" (Smart, 2002; Walter, 2012). "Eventalization," coined by Foucault (1991: 76), means to rediscover the complex network of factors, connections, encounters, and forces that precipitate the establishment of an event that subsequently achieves the status of self-evident. Genealogy analyzes an event as "a product of a multiplicity of processes," locates it "in a complex field of relations," and reveals its complexity, fragility, and contingency (Smart, 2002: 51). Eventalization lightens "the weight of causality" by "constructing around the singular event analyzed as process a 'polygon' or rather a 'polyhedron' of intelligibility, the number of whose faces is not given in advance and can never properly be taken as finite" (Foucault, 1991: 77). While conventional historical analysis concerns the "origin of the present," genealogy emphasizes the "history of the present" (Castel, 1994; Foucault, 1977), that is, the historical conditions that give rise to a present event. Particularly, genealogists are concerned with the multiplicity of conditions that makes possible an event, instead of searching for its root or a single point of origin (Foucault, 1991: 76).

For Foucault, events are situations where the problematization of existing ways of practicing and behaving and reflections on alternatives are identified (Walters, 2012: 21). Genealogy involves analyzing the historical problematization of the present event and constitutes a form of critical inquiry into the conditions that make possible the construction of problems (Koopman, 2013). "Problematization" concerns the way in which certain practices, behaviors, and institutions become problematic "due to the contingent intersection of a complex set of enabling and disabling conditions" (Koopman, 2013: 95). When existing practices become problematic, alternative practices are identified as possible solutions. As Koopman (2013: 146) summarizes, the transformation of certain struggles, obstacles, and difficulties into problems to which certain solutions are proposed constitutes the point of problematization. Accordingly, genealogy focuses on the history of a problem, rather than the history of a period that concerns "ideological movements, economic changes, … and the individual agents that fashioned this dramatic shift" (Flynn, 2005: 36–37). Genealogists explore specific and "local" forms of problematization, instead of undertaking "global theorizing and systematizing modes of thought and analysis" (Smart, 2002: 54).

Problematizations of historical events form at the intersection of different discourses and expose power relations. On the one hand, genealogy recognizes that certain ways of speaking and thinking shape processes of problematization. An event is understood to occur at the conjunction of significant discourses governing what it is possible to say and do (Power, 2011). Although discourses do not always determine things, they influence what can be known, said, and practiced (Arribas-Ayllon & Walkerdine, 2017). On the other hand, genealogy traces the emergence of an event as a contingent product of an ongoing interaction of power (Foucault, 1977). Conceptualizing power relations as "individual relations of domination and control" (Flynn, 2005: 35), genealogy embraces notions of confrontation, conflict, and systems of subjection (Smart, 2002: 49). Particularly, subjection is an outcome of the play of dominations, and individuals experience themselves merely as subjects of others. Individuals are "the product of highly rationalized discursive systems" and "the effect of a modern configuration of power" (Paras, 2006: 103). Room for a constituting subject and self-forming autonomy is limited in Foucault's genealogy (Foucault, 1977; Prado, 2000; Smart, 2002), although his later work on ethics concerns the self-formation of that self-same subject (Foucault, 1997; Koopman, 2013: 183).

The Notion of "Arena"

The notion of "arena" is utilized in this article to operationalize Foucault's genealogy and chart a multibranch genealogy of an ethics event. It has been adopted by scholars of new accounting history (Burchell et al., 1985; Mennicken, 2008; Robson, 1991), who trace the historically and geographically localized conditions under which accounting practices begin (Miller & Napier, 1993), rather than undertaking a supra-historical search for origins. As an "event" type construct (Power, 2011), the notion of arena was formulated initially by Burchell et al. (1985) to investigate the "value-added event," namely, the rise of value-added accounting in the United

Kingdom in the 1970s. It emphasizes the factors that make the event possible, its historical singularity and contingency, and its "multiple and dispersed surfaces of emergence" (Miller & Napier, 1993: 633).

An arena is defined as a particular field of operations that exists between certain issues, institutions, bodies of knowledge, practices, and actions (Burchell et al., 1985). Within an arena, there exist shifting patterns of relations, including power relations, between the actors functioning in a domain, along with its objects of concern and modes of operation. This implies that the analysis of an arena requires attention to how agents and agencies are influenced by the play of dominations and subject to coercive or normative pressure imposed by other parties. While an arena forms a condition for the emergence of an event, a "constellation," namely, the total domain of relations among different arenas, constitutes the multiple conditions under which an event occurs (Burchell et al., 1985). For the ethics event examined in this article, the different norms, normative discourses, and institutions in financial markets identified for each arena conditioned how analysts could address ethical concerns. What links the arenas is a shared interest in a particular practice that may become a common solution to the problems of different arenas. Furthermore, arenas are specific to the event under investigation and temporarily stable for a specific timeframe. The arenas conditioning the initial emergence of an event may be transformed over time and ruptured eventually (Burchell et al., 1985).

Consistent with Foucault's genealogy, "problematization" is central to the arena analysis. For each arena, problematization involves heterogeneous agents and agencies highlighting the deficiencies or failures of an existing practice and calling for alternatives (Miller & O'Leary, 1994). The problem of a "local" practice is framed in the name of wider concerns and aspirations, which are articulated in the form of discourses and vocabularies in the economy and society (Miller & Rose, 2008). The linkages between wider concerns and ideals and local problems are established through translation (Robson, 1991). "Translation" involves creating convergences and homologies by discursively relating concerns and interests that were initially different (Latour, 1987). Through translation, local problems are offered new interpretations, and expressed in a way that aligns them with wider discourses, and that can be shared by various parties. While problematization involves identifying a solution to the problem (Foucault, 1984b), how a solution gets accepted also involves translation. To convince others of the legitimacy of a solution, one mobilizes arguments with the use of certain languages and vocabularies so that alliances can be formed and the interests of others incorporated into the proposed solution (Callon & Law, 1982; Latour, 1987). Problematization and translation are constitutive of the concept of arena (Robson, 1991).

METHODS AND DATA

This article explores the "details and accidents that accompany … the beginning" of analysts' involvement in corporate governance (Foucault, 1977: 144). Informed both by Foucault's genealogy and the notion of arena, this article focuses on discourses, namely, certain ways of speaking and thinking, which may shape the process through which an ethics event emerges (Foucault, 2003).

This article follows a Foucauldian approach to dealing with discourses. First, Foucauldian genealogists "entertain the claims to attention of local, discontinuous disqualified, [and] illegitimate knowledges against global theories and functionalist or systematizing modes of thought" (Smart, 2002: 60). This means that "grand" discourses, such as capitalism and neoliberalism, are downplayed in genealogical analysis. Instead, this article focuses on "local" discourses that are linked directly to the work performed by analysts. It also attends to specific "wider" discourses and rationales "with their own institutional conditions of existence" (Robson, 1991: 548) that, in this article, gave significance to analysts' corporate governance work and made its emergence a contingent and singular event. Second, Foucault's genealogy decenters the subject and leaves limited room for individual initiative (Flynn, 2005; Foucault, 1977). It considers the behavior of the subject "as derived … from and delimited by deeper structures" (Gutting, 1990: 331), including institutional and normative discourses articulated in the economy and society. Instead of incorporating the voices of analysts into the examination of how their involvement in corporate governance emerged, this article analyzes this event as an outcome of specific discursive formations driven by authorities to which analysts were subjected to (Smart, 2002: 50).

Archival analysis based on a wide range of documentation is suited to research focused on discourses (Free, Radcliffe, & White, 2013). This article uses reports issued by various national and international governmental and nongovernmental organizations, professional associations, and informal networks formed between institutional investors and asset management firms, financial and business newspapers and magazines, and academic and practitioner publications in corporate governance. These reports are available in the public domain. Particularly, wider concerns and aspirations articulated in financial markets that give significance to analysts' corporate governance work are discursively represented and mobilized through languages and vocabularies within these documents (Miller & Rose, 1990: 4).

When analyzing the documents, the constant comparative method (Flick, 2009; Glaser, 1969) was adopted to compare issues discussed in one document with those in others. Attention was paid to how analysts were subjected to the influence of normative discourses and the play of dominations, with a particular focus on the discursive construction of problems, and how translation occurred between "local" problems associated specifically with the work practice of analysts and "wider" concerns and objectives. Text passages pointing toward certain common problems articulated and translated by various parties were grouped, and accordingly indicated the formation of a particular field of operations, that is, an arena, where analysts' corporate governance work was proposed as a potential solution. For instance, for the arena "investment research" delineated below, the reports issued by various agents and agencies functioning in this domain indicated that the short-term orientation of traditional sell-side research became problematic in relation to the wider ethical concern of short-termism in financial markets in the early 2000s. These reports revealed that analysts were under normative pressure imposed by asset owners and managers to perform extra-financial research, including research on governance issues. The same documents also indicated that extra-financial research may potentially tackle the problem associated with the short-term focus of sell-side research and the wider problem of short-termism. As the empirical analysis continued, three arenas were identified and traced. They were characterized by different shifting patterns of power relations between analysts and other parties, along with different objects of concern, which analysts' corporate governance work was called upon to address.

EVENTALIZATION: THE THREE ARENAS

This section delineates three arenas corresponding to the multiple conditions under which analysts began engaging with corporate governance. This ethics event was a coming together of various circumstances at a specific point in time. These circumstances either facilitated or restricted certain work practices adopted by analysts and shaped how they may contribute to tackling ethical issues in financial markets.

Investment Research

Investment research is focused on the strategy and fundamentals of companies and provides insights into their investment potential. From the early 2000s onward, however, investment research in both the US and UK financial markets was considered problematic with criticism mainly directed at its short-term focus. This problem was more visible for research undertaken by the sell-side, namely, brokerage houses, given the wider dissemination of their research outputs (Groysberg, Healy, & Chapman, 2008).

Critical discourses surrounding the short-term perspective taken by analysts were articulated. In the United Kingdom, John Sunderland, former President of the Confederation of British Industry (CBI), problematized sell-side research at the Investor Relations Conference in 2005:

> The pressure on the sell side has … made analysts very focused on the near term … their understanding of our business fundamentals is less than it used to be (quoted in Trade Union Congress, 2005).

In the United States, William H. Donaldson (2005), former Chairman of the Securities and Exchange Commission (SEC), commented:

> Over time, analysts have become obsessed with the question of whether a company meets its quarterly EPS numbers, and not with whether a company is built to last … this shift from long-term-thinking to short-term results has echoed through to company managements and to professional investors. The focus on short-term results has … had a counterproductive influence on companies, on investors and on analysts themselves.

Donaldson's comment created a translatability between the short-term orientation of sell-side research and the more general concern about short-termism in capital markets (Latour, 1987; Robson, 1991). Short-termism relates to the excessive focus of some financial market participants on short-term earnings, while little attention is given to the strategy, fundamentals, and conventional approaches that support long-term value creation (CFA & Business Roundtable, 2006). The debate on short-termism commenced initially in the 1980s (Ashdown & Holme, 1986; Jacobs, 1991; Porter, 1992).[2] In the early 2000s, it resurfaced and became salient once again on both sides of the Atlantic. Corporate leaders, investors, financial intermediaries, and governmental bodies expressed serious concern about short-termism, and called for fundamental reforms to address this problem.

In the United States, the CEOs of many large corporations identified short-termism as amongst the most pressing ethical issues in the business community in a survey conducted by the Business Roundtable Institute for Corporate Ethics in 2004.[3] In 2005, in a summit organized by the Conference Board, leaders of major corporations and the investment community agreed that it was time to deal with short-termism. Their views about the problem and possible means to tackle it were documented in a report, *Revisiting Stock Market Short-Termism* (Tonello, 2006). According to this report, short-termism is a chain composed of three major links, namely, corporate, investor, and analyst, and effort was required on the part of each to mitigate the problem. Similarly, from 2005, the CFA Centre for Financial Market Integrity and the Business Roundtable Institute for Corporate Ethics conducted symposia to discuss short-termism. A report, *Breaking the Short-Term Cycle* (CFA and Business Roundtable, 2006), was issued, setting out recommendations on how to refocus on long-term value. Despite their distinct work agendas, the above-mentioned agents and agencies shared very similar views of the deficiencies associated with short-termism and called for alternatives to emerge (Miller & O'Leary, 1994; Walters, 2012). There was consensus that a solution was required to mitigate the problem (Latour, 1987).

In Britain, too, short-termism was viewed as a problem in the early 2000s. It was identified as a major concern for the British economy in a report submitted jointly by the CBI and the Trades Union Congress (TUC) to the British Chancellor in 2001.[4] Meanwhile, the accountancy profession problematized the same issue. As Charles Tilley, former Chief Executive of the Chartered Institute of Management Accountants, commented, "The nature of City expectations that drive the aggressive earnings game and the resulting 'short-termism' is a cycle that needs to be broken."[5]

Furthermore, in 2005, the TUC (2005) released a report titled *Investment Chains: Addressing Corporate and Investor Short-Termism.* This report criticized short-termism and its relationship with the basic components of the investment chain, namely, pension funds and their trustees, fund managers, hedge funds, and financial

[2] Short-termism had been an object of concern in the United States and United Kingdom since the 1980s. It was caused largely by the short-term horizons of corporate managers in the way they conducted business and the demand for short-term returns by institutional investors. Short-termism, viewed as salient in the early 2000s, appeared to be a sort of re-activation of the same issue from the earlier decades. This time, the short-term focus of sell-side investment research was identified.

[3] See www.corporate-ethics.org (accessed March 7, 2018).

[4] *The UK Productivity Challenge: CBI/TUC Submission to the Productivity Review* (November 2001).

[5] See https://www.cimaglobal.com/Press/Press-releases/2003-archive/December/CIMA-Chief-Executive-calls-for-end-of-quotshort-termismquot-in-the-City/ (accessed March 7, 2018).

analysts. Particularly, analysts were identified as “taking a short-term view of a company’s prospects” and “losing touch with the long-term drivers of success” (Trade Union Congress, 2005: 18).

As suggested by the reports published by the TUC and the Conference Board, the short-term view taken by analysts in investment research was part of the wider problem of short-termism in the United States and United Kingdom in the early 2000s. Accordingly, attempts made to address the short-term orientation of sell-side research were aligned with efforts to tackle the wider problem of short-termism. A translatability was created between the solution proposed to tackle the short-term focus of analyst research and the possible way forward to rectify the wider problem of short-termism (Latour, 1987; Robson, 1991).

The concern about short-termism, however, also emerged in parallel with increasing recognition of socially responsible investment (SRI) as an investment philosophy in financial markets. Since the late 1990s, SRI moved from a fringe activity carried out by unit trusts and mutual funds to an investment approach gradually accepted by institutional investors (Rivoli, 2003; Sparkes & Cowton, 2004). Instead of aiming to maximize short-term financial returns, SRI incorporates ESG criteria, which are believed to have a material impact on long-term investment performance (Lewis & Juravle, 2010; Sandberg, Juravle, Hedesström, & Hamilton, 2009; Sparkes, 2002). The increasing acceptance of SRI has led to the development of a long-term approach to investment and a discourse of “long-termism,” despite the coexistence of the problem of short-termism. While the discourse of long-termism may not lead to universal long-term orientation, it may intervene into the domain of investment research, specifying what could be known, said, and practiced (Arribas-Ayllon & Walkerdine, 2017). Accordingly, the short-term focus of analyst research can be seen as an impediment to long-term investment, violating the rationale of long-termism: “One of the obstacles to investors taking a longer-term and more rounded assessment of corporate performance … is the current focus of much sell-side research” (EAI, 2004).”

Some institutional investors and fund managers began calling for long-term investment research that emphasizes the integrated analysis of financial and non-financial criteria, including corporate governance. As David Blood and Al Gore of Generation Investment Management argued:

> Analysts need to take account of factors that are not routinely monetized … as opposed to solely focusing on short-term returns. This means analyzing the implications for shareholder value of long term economic, environmental and social challenges. They include … the alignment of management and board with long-term company value … risks associated with governance structure (quoted in Trade Union Congress, 2005: 39).

Accordingly, traditional equity research would only suit short-term investment. Instead, investment research that takes a long-term perspective and incorporates extra-financial criteria, including corporate governance, may become a possible remedy for the problem associated with the short-term orientation of sell-side research. Meanwhile, it may help unlock “the analyst link” in the investment system considered to have triggered the wider problem of short-termism (Tonello, 2006).

A series of industry-led initiatives was established to collectively articulate the rationale and discourse of long-termism. They combined forces to press analysts to adopt a long-term perspective and perform extra-financial research. In June 2004, twenty financial institutions, including asset management firms, insurance companies, and investment banks, accepted the invitation of Kofi Annan, former UN Secretary General, to develop guidelines on how to integrate ESG issues in the investment process. A report titled *Who Cares Wins: Connecting Financial Markets to a Changing World* was released, prompting analysts "to better incorporate environmental, social and governance factors in their research where appropriate and to further develop the necessary investment know-how, models and tools in a creative and thoughtful way" (UN Global Compact, 2004: ii).

The report also urged investors to introduce incentives to direct analysts more toward extra-financial issues and reward sell-side extra-financial research (The UN Global Compact, 2004: ii–iii). Almost as a direct response, the Enhanced Analytics Initiative (EAI) was founded in late 2004.[6] As an international collaboration between asset owners and managers, participating members agreed to allocate a minimum of 5 percent of their brokerage commissions to sell-side firms based on how well analysts integrated analysis of extra-financial criteria. The EAI aimed to "change the way the broker community analyzes extra-financial issues" (EAI, 2004). The 5 percent brokerage commissions provided analysts with a financial incentive to conduct long-term investment research and reinforced the rationale of long-termism.

In 2006, another notable investor-led collaboration in partnership with the UN Environment Programme Finance Initiative and the UN Global Compact was established, namely, the Principles for Responsible Investment (PRI). This initiative required institutional investors to incorporate ESG issues into investment practices (Eccles & Viviers, 2011; Sandberg et al., 2009). Particularly, signatories of the PRI[7] were required to "ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis."[8]

While not providing financial incentive to analysts, the PRI was developed with similar aspirations as the EAI. First, both initiatives, and the organizations involved, articulated a new technical norm for the domain of investment research, namely, incorporating extra-financial criteria into investment analyses. This new norm aligned closely with the rationale of long-termism and was in opposition to short-termism. Second, from the perspective of analysts, these initiatives were not coercive in nature. Instead, they were meant to impose normative pressure on analysts

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6 Until December 2008, the EAI represented total assets under management of €2 trillion (USD $2.8 trillion) and had thirty members. From December 2008, the EAI joined forces with the UN PRI. See http://www.uss.co.uk/Documents/Four%20Years%20of%20the%20EAI%202008.pdf (accessed August 27, 2015).

7 The PRI now has more than two thousand signatories. See https://www.unpri.org/pri/about-the-pri (accessed June 14, 2019).

8 See http://www.unpri.org/about-pri/the-six-principles/ (accessed October 6, 2015). For an updated version of the principles, see https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment (accessed June 14, 2019).

and push them to endorse the new norm when pursuing investment research. Particularly, the organizations involved in these initiatives were mostly institutional investors and fund managers, that is, the clients of analysts. Normally, the approach adopted by analysts in their work reflects the preferences of their clients (Imam, Barker, & Clubb, 2008; Tan, 2014). Accordingly, analysts could no longer ignore or neglect extra-financial criteria, including corporate governance, in their investment research. Instead, they were subject to the influence of others, namely, organizations participating in initiatives that promoted long-term investment, to consider governance criteria in their work.

To summarize, the intersection of the resurfacing of the ethical issue of short-termism in the early 2000s, the articulation of the discourse and new norm of "long-termism," and the normative pressure imposed by diverse agents and agencies to press for extra-financial research provided a condition of possibility for analysts to bring corporate governance into the boundaries of their work territory.

The Reform of the Analyst Business Model

Analysts faced limited regulation when their profession gained recognition in the early 1990s (Coffee, 2006). Since the early 2000s, however, they have been subject to increasing regulatory scrutiny. This has been triggered mainly by concerns about the way in which sell-side research was organized and rewarded.

Traditionally, sell-side research was performed under the roof of large brokerage firms. In the late 1990s and early 2000s, the analyst business model in place was increasingly "problematized" (Koopman, 2013; Walters, 2012). Commentators highlighted the deficiencies in the way the analyst business model was conventionally designed and called for alternatives to develop. As Hunt and Williams (2003) of McKinsey & Company claimed. "For reasons that go well beyond the legal and reputation issues, the sell-side research business is fundamentally sick."

Central to the problematization of the analyst business model was the issue of conflicts of interest (Coffee, 2006; Dalton, et al., 2003; Palazzo & Rethel, 2008; Shorter, 2003). Traditionally, analysts relied on subsidies from other departments of the same brokerage firm to finance their research. Before 1975, the brokerage division covered the cost of analyst research out of brokerage commissions. Analyst research was funded by "excess" commissions, or "soft dollars," since minimum commission rates were fixed at above competitive levels and brokerage firms competed for order flow by returning part of their commissions to institutional investors in the form of additional research services (Blume, 1993: 36). After fixed brokerage commissions were abolished in 1975, the profit center of a brokerage firm shifted toward investment banking (Coffee, 2006: 251).[9] Since then, analyst research has relied more on the investment banking department. Incentives were introduced; these could potentially induce analysts to inflate the earnings estimate of

[9] According to Blume (1993), with unfixed and competitive commission rates, a major reason for the existence of soft dollars would disappear.

brokerage firms' client companies to attract corporate finance deals. Conflicts of interest arising from these developments compromised the potential independence of analysts and led sell-side research to be problematized as exhibiting "a lack of depth … and a lack of objectivity" (Bodow, 2001).

Certain practices become problematic at a specific historical moment "due to the contingent intersection of a complex set of enabling and disabling conditions" (Koopman, 2013: 95). This was certainly the case for analyst conflicts, which came to be more problematic when the technology stock bubble burst and financial markets declined in the late 1990s, and after the downfall of some corporate giants in the early 2000s (FSA, 2002; Shorter, 2003; US Senate Committee on Governmental Affairs, 2002a, 2002b). These events drove down investor confidence in financial markets. Re-establishing the integrity of the financial services industry and restoring investor confidence became the key policy objectives for financial regulators in the United States (Donaldson, 2003b). The problem with the analyst business model was viewed as contributing to the loss of investor confidence due to analyst conflicts (Donaldson, 2003b). As Annette Nazarethi (2003), former Director of the SEC Division of Market Regulation, stated:

> There has been the steady stream of revelations concerning alleged conflicts of interest that have compromised the integrity of the financial services industry … the detrimental activity rooted in these conflicts has occurred … in accounting and auditing, corporate governance, sell-side research, investment banking.

Accordingly, the conflicts of interest problem was translated into the wider concerns about the US financial markets (Latour, 1987; Robson, 1991). The task of mitigating analyst conflicts and reforming the analyst business model became aligned with the regulatory agenda for re-establishing the integrity of the financial services industry. This applied equally in Britain. As Gay Huey Evans, director of the Markets and Exchanges Division of the former Financial Services Authority (FSA), commented, "To preserve confidence in the integrity of the UK's financial markets, the standards applied to investment research … should be higher than they have been in the past" (FSA, 2003).

The reforms undertaken by the SEC and FSA to transform the analyst business model were regulatory in nature. In America, the SEC called upon the National Association of Securities Dealers (NASD) and the New York Stock Exchange (NYSE) to formulate new rules to address analyst conflicts in 2001. These rules, approved in 2002, were designed to close some regulatory gaps and promote greater independence of analysts (SEC, 2002). The *Sarbanes-Oxley Act*, enacted after the outbreak of corporate scandals in the early 2000s, directed the SEC to publish a second set of proposed rule changes in 2003 (SEC, 2003b). Meanwhile, in 2001, Eliot Spitzer, former New York Attorney General (NYAG), led an investigation into ten Wall Street firms and two individual analysts suspected to have engaged in serious misrepresentations in research reports and investment recommendations released to the market. Building upon an initial settlement with one of the firms investigated, Merrill Lynch, Spitzer sought to collaborate with other financial regulators in the United States to pursue broader structural reform in the securities industry (OAG, 2002a, 2002b).

In October 2002, the SEC, NYAG, NYSE, NASD, and the North American Securities Administrators Association concluded their coordinated investigations into analysts. They jointly announced the *Global Analyst Research Settlement* (SEC, 2003a), proposing a series of structural reforms to brokerage firms in order to resolve analyst conflicts.[10] The Global Settlement reflected the ever-increasing salience of the ethical issue of analyst conflicts of interest and the urgent need to address this dilemma. It became a potential solution, which was regulatory in nature, to the concerns about the analyst business model. It could also be conceived as a possible solution to the problem that the US financial market faced in the early 2000s, one that was problematized as an absence of trust and integrity. As Spitzer commented:

> The settlement … implements far-reaching reforms that will radically change behavior on Wall Street. It is the fulfillment of a promise … to restore integrity to the marketplace, and … restore investor confidence in Wall Street. (OAG, 2002b)

In Britain, the former FSA kept a close eye on the analyst business model. In 2004, the FSA had issued several new regulatory proposals, which were principle-based, requiring all regulated brokerage firms issuing investment research to publish a policy to explain how they managed conflicts of interest (FSA, 2003). The policy had to meet a key standard that analysts should not be involved in any activity that could conflict with their ability to produce objective research (FSA, 2003). The approach followed by the FSA seemed different from that adopted by regulators in the United States. Nevertheless, like the Global Settlement, the FSA proposals attempted to reform the analyst business model, which was perceived to be problematic, undermining investor confidence in the integrity of the UK financial market (FSA, 2003).

As a result, the analyst business model could no longer operate as "business as usual." Analysts were faced with the coercive pressure imposed by financial regulators to transform the organization of sell-side research. In addition to formal regulations, however, private associations, to which analysts or their firms may belong, issued guidelines on appropriate behavior and ethical practices. For instance, the Association for Investment Management and Research (AIMR) required analysts holding the CFA designation to follow their Code of Ethics and Standards of Professional Conduct, which, among other things, required analysts to "exercise independent professional judgment" when undertaking investment research (US Senate Committee on Governmental Affairs, 2002b). These ethical standards, however, were not seen to go beyond the formal regulatory requirements (Caccese, 1997). Their effectiveness in enacting ethical behavior has often been questioned (Boatright, 2010; Dobson, 2003).

Even the regulatory solutions proposed by financial regulators to address the concerns with the analyst business model were problematic. They not only caused

[10] See http://www.sec.gov/news/speech/factsheet.htm (accessed June 14, 2019).

new problems but also created threats to and uncertainties for analysts. One issue arising from the Global Settlement was the question of who would fund sell-side research, given that it was henceforth required to be separated from investment banking (Coffee, 2006: 267). In fact, after the enactment of the Global Settlement, there were significant reductions both in the size of sell-side research departments and the number of companies covered by analysts (Davis, 2004). The supply of sell-side research appeared to have declined. The demand for it, however, did not weaken (Coffee, 2006). Instead, more relevant, better-targeted, and innovative sell-side research was, and is still, highly sought after by asset owners and managers (EAI, 2004). As Hunt and Williams (2003) suggested, "developing more relevant and objective research at lower cost is … a financial imperative."

Accordingly, the problem faced by analysts became translated into one relating to how their business model should be designed so that sell-side research not only could survive but also generate outputs that their clients would value (Latour, 1987; Robson, 1991). Conducting investment research that incorporates governance and other extra-financial criteria was identified as a way forward. This type of investment analysis was believed to be more relevant and innovative than traditional sell-side research and would thus be more highly valued by the investment community. For instance, the Institutional Investors Group on Climate Change and the UN Environment Programme Finance Initiative Asset Management Working Group both viewed investment research incorporating ESG issues to be innovative (EAI, 2004). Meanwhile, as mentioned previously, members of the EAI considered extra-financial research more relevant, better-targeted, and innovative, and hence agreed to offer financial incentives to brokerage firms based on how well analysts integrated analysis of material extra-financial issues into investment research (EAI, 2004). In fact, when the EAI was established, its members clearly showed their awareness of the broader economic and regulatory environment that was influencing the analyst business model at that time: "This timely initiative coincide with the growing move by brokers to adapt their business model following regulatory changes, legal events and clearer demands from customers" (EAI, 2004).

Raj Thamotheram (2005), former Chair of the Steering Committee of the EAI, emphasized the significance of conducting extra-financial research in the transformation of the analyst business model:

> Good analysts much prefer doing interesting and intellectually challenging work than the repetitive, mechanistic commentary on last quarters figures … at a time when the analyst business model is being squeezed by regulatory attention … EAI represents a clear statement by a growing pool of international clients who are clear about what they are happy to pay for!

Compared to the investment banking fees that analysts previously received as part of their compensation before the enactment of formal regulations, such as the Global Settlement, the 5 percent brokerage commissions set aside by members of the EAI appeared relatively small. Nevertheless, they could be used as a "pragmatic incentive to enable … analysts … to produce more rounded, more useful research" (EAI, 2004). More generally, they could form part of the funding available for sell-side research. Indeed, the increasing demand for more relevant, innovative, and valuable investment research arrived at a timely moment when the analyst business model was subject to regulatory scrutiny and its reform was viewed as necessary.

As can be seen, the reform to the analyst business model was pushed not only by regulatory authorities but also by the institutional investment community. The play of dominations that analysts experienced comprised both the coercive power exercised by regulators and the normative pressure imposed by asset owners and managers. Furthermore, the discourses related to "innovative," "more relevant," and "more rounded" investment research may not have immediately changed how sell-side research operated. Nevertheless, they can inform brokerage firms of what is possible in terms of appropriate and legitimate reform of the analyst business model (Arribas-Ayllon & Walkerdine, 2017; Power, 2011). Performing research on extra-financial issues, including corporate governance, constituted a step forward, if not yet a definite solution, for the ongoing reform of the sell-side research business. An opportunity was created for brokerage firms facing problems, threats, and uncertainties after the regulatory reforms to re-think how sell-side research could be organized and financed.

In summary, due to the increasing salience of the ethical issue of analyst conflicts of interest in the late 1990s and early 2000s, analysts faced more scrutiny exercised by regulators on both sides of the Atlantic. However, the regulatory reforms were enacted at a time when the demand for "innovative," "more relevant," and "more valuable" investment research by the institutional investment community was high. It was at the conjunction of these historical events, discourses, and power relations that analysts' corporate governance work was identified as a way forward for analysts to generate useful investment analysis, transform their business model, and ultimately maintain their survival.

Corporate Governance

The issue of corporate governance is inherent in the operation of corporate forms of organizations (Tricker, 2000). It was during the 1990s and the early 2000s that corporate governance came to be viewed as a salient problem with ethical implications (Boyd, 1996) and subject to intense scrutiny and reform.

Initially, corporate governance was identified as a problem in Britain in the late 1980s. This was triggered by the combination of the harsh economic climate, concern about standards of financial reporting, and the controversy over executive compensation (Boyd, 1996). As a response, the Committee on the Financial Aspects of Corporate Governance issued the *Cadbury Report* (1992), proposing a code of "best practice" for corporate governance. Subsequent reforms in the 1990s included the publication of the *Greenbury Report* (Greenbury, 1995) and the *Hampel Report* (Hampel, 1998). The recommendations set out in these reports were consolidated and incorporated into the *Combined Code* (FRC, 1998). Furthermore, the UK Department of Trade and Industry launched a long-term fundamental review of core company law in 1998. All these events reinforced the view that corporate governance was a problem for which solutions were needed.

Corporate governance was also problematized in the United States. Arthur Levitt (1999), former chair of the SEC, claimed that it was "absolutely imperative that a corporate governance ethic emerge and envelop all market participants." In the 1990s, institutional investors and corporations were taking the initiative to address governance problems. Policy documents were issued by the Business Roundtable, the California Public Employees Retirement System, the Teachers Insurance and Annuity Association – College Retirement Equities Fund, General Motors, and National Association of Corporate Directors (Solomon & Solomon, 2004). While these organizations may have distinct tasks to accomplish, their views on the current state of the governance of American corporations were homogenous and consistent (Latour, 1987; Robson, 1991). They expressed similar concerns about governance issues and formed a consensus that improving corporate governance was necessary.

Despite the increased scrutiny of corporate governance systems and processes, the failures continued. The outbreak of corporate scandals around the globe in the early 2000s, such as Enron, WorldCom, and Parmalat, further brought attention to the issue of corporate governance. Commentators continued problematizing corporate governance and advanced an agenda for fundamentally reforming the corporate system. As William Donaldson (2003a), former Chairman of the SEC, stated:

> If significant steps are not taken to revisit and remodel corporate governance practices, corporate America will continue to attract the anger and animosity not only of disillusioned shareholders, but also of a much broader cross-section of American society.

Faced with continuing corporate failures, and to achieve the aspiration of better corporate governance, regulatory bodies in the United States took action. The US Congress (2002) passed the Sarbanes-Oxley Act almost as a direct response to the corporate scandals. Donaldson regarded the *Act* as "a necessary and understandable response to an unprecedented string of corporate scandals which were rooted in intolerable governance, accounting and audit failures" (quoted in Clarke, 2007: 18). The NYSE and NASD were requested by the SEC to revise their corporate governance listing standards. Meanwhile, the corporate sector continued voicing its view on governance issues. The Business Roundtable (2002: iv), for example, issued the *Principles of Corporate Governance* to "guide the continual advancement of corporate governance practices."

In Britain, the *Higgs Report* (Higgs, 2003) and *Smith Report* (Smith, 2003) were released after the corporate scandals of the early 2000s. The *Higgs Report* (2003: 11) formed "part of a systematic re-appraisal … of the adequacy of corporate governance arrangements in the wake of recent corporate failures." The *Smith Report* (2003: 21) indicated that "the Government's request to the FRC to develop guidance on audit committees … had … its root in the dramatic corporate failures in the United States in early 2002." In 2003, a revised *Combined Code* (FRC, 2003) was issued, incorporating the recommendations set out in the *Higgs Report* and *Smith Report*.

The wave of governance reforms undertaken in the early 2000s primarily addressed the relationships between shareholders, board of directors, board committees, and management. Nevertheless, at the same time, corporate governance started being problematized from new perspectives. Specifically, concerns about corporate governance came to be translated into criticisms over the failure of some gatekeepers in safeguarding the corporate system (Latour, 1987). Four main categories of gatekeepers were identified, namely, auditors, corporate attorneys, securities analysts, and credit rating agencies (Coffee, 2006; Fuchita & Litan, 2006). They were blamed for failing to properly discharge their appointed roles and for playing a major part in the corporate scandals. The failure of the gatekeepers and corporations, together, constituted a systemic failure of the financial market system, leading to the loss of trust in the investing public. As Coffee (2002: 4–5; 11) emphasized:

> Behind this disruption lies the market's discovery that it cannot rely upon the professional gatekeepers—auditors, analysts, and others—whom the market has long trusted … Enron is a demonstration of … the collective failure of the gatekeepers.

Why gatekeepers failed and why these "watchdogs didn't bark" was investigated (Coffee, 2002, 2006; US Senate Committee on Governmental Affairs, 2002a), with analysts a focus for investigators. In 2002, hearings were held by the Senate Governmental Affairs Committee and the House Financial Services Committee in the United States with analysts who covered the stocks of Enron, WorldCom, and Global Crossing (Shorter, 2003). Analysts were revealed to issue warnings to investors at a rather late stage before those companies collapsed. For instance, ten out of fifteen analysts covering Enron maintained "buy" or "strong buy" recommendations on its stock, almost until the moment when it filed for bankruptcy (US Senate Committee on Governmental Affairs, 2002a: 2). These overly optimistic stock ratings were said to have been the result of analyst conflicts of interest and their lack of independence from companies. As Charles Hill, former Director of Research at Thomson Financial, indicated, "The most obvious symptom of the analyst conflict problem is the positive bias of analyst recommendations in general … and … the extreme positive bias of their recommendations on Enron in particular" (Hill, 2002).

The concern about analyst independence was not new but received renewed attention after the collapse of Enron and other corporations in the early 2000s (Thompson, 2002). Analysts covering those failed companies denied that their objectivity and independence was impaired (US Senate Committee on Governmental Affairs, 2002a, 2002b). However, commentators were firm in their belief that the lack of independence led to analysts' failure in functioning as responsible gatekeepers, which resulted in corporate governance failures. This implies that mitigating analyst conflicts and restoring their independence could potentially lead to the strengthening of their role as gatekeepers in the corporate system, and hence to better corporate governance. Formal financial regulations, such as the *Global Settlement* (SEC, 2003a), and self-regulations, such as the ethical codes issued by the AIMR in July 2002, were meant to prompt analysts to resume their independence and function as responsible gatekeepers (Shorter, 2003).

Doubts, however, were raised regarding whether legal rules and ethical codes, which mainly sought to re-establish analyst independence, were effective in ensuring that gatekeepers were properly governed and made to contribute to better corporate governance (Boni, 2006; Fuchita & Litan, 2006). In other words, the extent to which regulations alone, no matter if they were hard or soft, could trigger the ethical behavior of gatekeepers and press them to function responsibly in the corporate system was questioned. As an alternative, to involve gatekeepers in corporate governance to a greater extent, these financial professionals were educated about the salience of the problem of corporate governance, encouraged to attend more closely to governance issues, and pressed to play a more active role in the governing of companies through discourses articulated by a diverse group of agents and agencies. For instance, as the CFA Institute Centre for Financial Market Integrity indicated in a report titled *The Corporate Governance of Listed Companies: A Manual for Investors*:

> The governance failures at Enron, Parmalat and others since 2001 are harsh examples of the risks posed by corporate governance breakdowns … It is our hope that … analysts … can use … corporate governance information as part of their analyses and valuations … to evaluate a company (CFA Institute, 2005: 1).

In fact, before the outbreak of the corporate failures, the World Bank (2000) released a report titled *Corporate Governance: A Framework for Implementation*. This report identified certain "external factors" that were expected to drive the governing of corporations. These were referred to as "reputational agents," including accountants, lawyers, credit rating firms, investment bankers, financial media, investment advisors, investment and corporate governance analysts, self-regulating bodies, and civic society. They were viewed as able to "reduce information asymmetry, improve monitoring of the firms, and shed light on opportunistic behaviour" (World Bank, 2000: 5). In the aftermath of those corporate scandals, Sir Adrian Cadbury, a corporate governance guru in Britain, expressed a similar view. Cadbury (2006: 37–38) identified several "broader constituencies" who could "contribute to the corporate debate" and "influence the expectations of a whole range of investors." These comprised the media, financial advisers, analysts and commentators, financial institutions, and the body politic.

Academics also came to emphasize the role of gatekeepers and other significant corporate counterparts in the governing of corporate life (Coffee, 2006; Engwall, 2006). Particularly, as Cohen, Krishnamoorthy, and Wright (2004: 1, 4–5) outlined:

> Actors and mechanisms … that are largely external to the corporation … influence its effective governance … and are integral to safeguarding the interest of a company's stakeholders. Examples of such actors include … financial analysts … These external players often shape and influence the interactions among the actors who are more directly involved in the governance of the corporation.

The problematization of the role of gatekeepers in corporate governance formed at the intersection of different discourses and exposed power relations. On the one hand, the gradual inclusion of gatekeepers in governance debates created a discursive space for them to put corporate governance onto their work agendas. What gatekeepers could and should do to scrutinise corporate conduct and help achieve the aspiration of better governance was articulated through various discourses. While these discourses may not directly determine gatekeepers' work practices, they would be informed of what could be said and done in relation to corporate governance (Arribas-Ayllon & Walkerdine, 2017). On the other hand, the more active role of gatekeepers was advocated largely by international financial institutions (e.g., the World Bank), professional bodies (e.g., the CFA Institute), corporate governance gurus (e.g., Sir Adrian Cadbury), and academics. These parties imposed normative pressure on gatekeepers, who would find it inappropriate to simply ignore or neglect corporate governance when fulfilling their responsibilities in the corporate system. Ultimately, the corporate governance work conducted by gatekeepers had the potential to address the problem of corporate governance and help achieve the goal of better governance. This seemed to be how analysts' corporate governance work was viewed by financial market participants. As the press reported:

> Analysts … are in the position to directly tie these … governance issues … to valuation and stock price, which is why some observers see … analysts' moves as a bigger carrot for luring companies toward good governance (quoted in Gullapalli, 2004).

Charles Elson, law professor and director of the Centre for Corporate Governance at the University of Delaware, echoed this view:

> Following Enron and the other governance-related meltdowns, analysts have finally figured out that corporate governance matters in terms of corporate performance … The more attention that is paid the more reforms you'll continue to see (quoted in Sweeney, 2004).

To summarize, in the early 2000s, part of the problem of corporate governance in the United States and United Kingdom was viewed as relating to the failure of analysts in fulfilling their role as gatekeepers. While regulations were enacted to attempt to make analysts more responsible gatekeepers, they were seen to be ineffective. Instead, through discourses, various agents and agencies encouraged analysts and other gatekeepers to engage more with governance issues and emphasize their important contributions toward the governing of corporate life. Analysts were accordingly subject to the play of dominations and faced with normative pressure to more explicitly place corporate governance onto their work agenda.

DISCUSSION

This article examines the ethical relevance of the emergence of the corporate governance work pursued by analysts during the early 2000s from a historical perspective. It fosters business ethicists' understanding of how ethical issues in finance can be conceptualized and contributes toward finance ethics research.

Ethics Events, Arenas, and Constructing Ethical Problems

By bringing the "event-type" construct into finance ethics research, this article develops a novel perspective to conceptualize the rise of ethically relevant practices in financial markets. Inspired by Foucault's (1991) idea of "eventalization," analysts' involvement in corporate governance is understood as an "ethics event." The genealogical analysis undertaken in this article traces the multiple conditions that made the event possible. These conditions either enabled activities undertaken by analysts, or imposed expectations and demands on them and restricted their behavior. Particularly, "eventalization" is operationalized in this article through the notion of "arena." The three arenas identified constituted the dispersed surfaces on which analysts began working on corporate governance at a historical moment. What linked the three arenas together into a "loosely functioning ensemble" (Miller & Napier, 1993: 643) was their simultaneous perception of analysts' corporate governance work as a common solution to the different ethical problems identified across the arenas. This mode of analysis fosters understanding of how certain practices adopted by financial professionals may become morally relevant and produce ethical consequences within the boundary of specific time and space.

The multibranch genealogy charted in this article is a genealogy of ethical problems. This provides business ethicists with important insights into how ethical problems and their solutions are identified, formulated, and interpreted historically and discursively by heterogeneous parties with diverse interests and concerns. Instead of conducting "global theorizing and systematizing modes of … analysis" (Smart, 2002: 54), it is the "local" forms of problematization related directly to the ethics event under investigation that is the focus here. Particularly, this article focuses on the ethical problems associated specifically with analysts, and analyzes how these "local problems" were interpreted and translated in the name of wider concerns and aspirations articulated in the form of economic and institutional discourses (Miller & Rose, 2008). As this article illustrates, ethical problems are not stated or preconceived. Instead, they are constructed at "the contingent intersection of a complex set of enabling and disabling conditions" (Koopman, 2013: 95).

Ethical problematization forms at the intersection of a range of more or less contradictory discourses and exposes power relations. This article recognizes that while discourses do not always determine things, they can govern what it is possible for analysts to know, say, and do (Arribas-Ayllon & Walkerdine, 2017; Power, 2011), and accordingly play a crucial role in constituting their subjectivity (Foucault, 1977). The discourses encountered by analysts conditioned whether and how they handled governance issues in their work. Meanwhile, following Foucault's genealogical tradition, this article attends specifically to the languages and discourses utilized by agents and agencies who exerted either coercive or normative pressure on analysts. Analysts were faced with the play of dominations imposed by these parties. Their involvement in corporate governance may be seen as an outcome of specific discursive formations driven by authorities to whom analysts were subject (Smart, 2002). The fact that analysts have taken corporate governance on board indicates that they were unable to completely ignore these normalizing influences.

Nevertheless, how exactly analysts took up the surrounding discourses or were influenced by other parties imposing pressures on them remains a puzzle. Methodologically, this limitation is a natural consequence of the evidence used in this study, that is, publicly available documents of various organizations, regulatory agencies, and the like. While these empirical sources provide rich details of the conditions under which analysts operated, they cannot get inside the heads of analysts, resulting in a lack of insights into the actual thinking of analysts. This article hence cannot claim that the discourses and power relations directly caused analysts to work on corporate governance, or that analysts' governance work was indeed the solution to the various ethical problems identified, because the analysts' voices are absent from the empirical investigation. Theoretically, this study leaves limited room for a self-constituting subject and can only throw light on the emergence of the subject without referring to it as a participant in that emergence (Flynn, 2005; Foucault, 1977). This theorization, however, aligns with Foucault's genealogy, emphasizing how the moral subject is formed through the play of domination, rather than the self-formation of that self-same subject (Koopman, 2013: 183; Crane et al., 2008; Ladkin, 2018). In focusing on how analysts experienced themselves as subjects of others, this article analyzes their involvement in corporate governance as an action conditioned by power relations. Despite these limitations, an extended use of Foucault's middle work in business ethics research is explored here, enhancing business ethicists' understanding of how "power-determined" moral subjects are formed, as opposed to how "self-determining subjects" act upon themselves and handle constraints on actions (Prado, 2000: 172–173; Foucault, 1984a, 1988).[11]

Finance Ethics, Financial Professionalism, and Financialization

Analysts' work on corporate governance may be viewed as transforming the technical norms underlying conventional investment analysis. Despite being perceived as technical and neutral at first sight, it was, in fact, morally relevant. It had the potential to tackle analysts' unethical behavior, exemplified by the short-term orientation of investment research, conflicts of interest, and their failure to fulfill gatekeepers' duties, and have an impact on wider ethical concerns in financial markets. Traditionally, on the one hand, financial practices are considered highly technical and morally neutral in mainstream finance, and only the technical norms are considered relevant for decision-making and taking action (Hendry, 2015). On the other hand, when ethical dilemmas appear in financial markets, the problem is often attributed by some business ethicists to the moral norms that are embodied in regulations and professional codes of ethics in financial services. Ethicists argue that moral norms should be internalized into the values of individuals and manifested in their actions (Dobson, 2003). These two views articulate a clear-cut distinction between the technical norms and moral norms in finance (Brenkert, 2010; Hendry, 2015). This article, however, challenges this distinction and suggests that the boundary between the two norms may be blurred and less explicit than originally expected. This article posits that when ethical crises occur, transforming technical practices and revising the technical norms that financial professionals adopt may

[11] As Prado (2000: 172–173) explains, genealogy "deals with practices that involve *populations* … The move to ethics is like refocusing on individuals as opposed to populations … There is no room for self-forming autonomy in genealogical analysis because its focus is the disciplining of substantial numbers of inmates, patients, students, soldiers, and so forth. However, ethics deals with the actions of particular people. That means allowing for the idiosyncrasies of individuals and the diversity of their responses to constraints on their actions."

help tackle ethical problems in financial markets. This is particularly the case when financial regulators respond “too little, too late” (Jennings, 2013: 52), when there is no definitive answer to the question of whether professional codes of ethics are effective in elevating ethical behavior (Boatright, 2010; Dobson, 2003; Ragatz & Duska, 2010; cf. Stansbury & Barry, 2007; Weaver & Treviño, 1999), or, as this article demonstrates, when attempts to change the moral norms held by financial professionals fail.

This study finds that analysts’ involvement in corporate governance seemed to “kill two birds with one stone,” mitigating deficiencies in conventional equity research, while tackling ethical problems in financial markets. It may be argued that technicality and morality are not only inseparable but also “translatable” (Latour, 1987), together constituting the two sides of the same coin for financial practices. This duality aligns with a recent suggestion by some business ethicists that professionalism in financial services entails both competence and ethics (Cowton, 2019; Cowton, Dempsey, & Sorell, 2019). Specifically, they propose that neither technical competence, nor ethical standards, alone can achieve financial professionalism. Instead, being professional, as this article echoes, means that financial practitioners need to maintain not only technical competence and expertise, but also the highest ethical standards for the good of society (Ragatz & Duska, 2010: 310). The integration of corporate governance and other extra-financial issues into investment processes has become a technical competence required of contemporary financial professionals (Tan, 2014). While it is considered a potential solution to certain ethical concerns in financial markets, this practice may not be free from ethical pitfalls and can pose new ethical challenges (Kofman & Payne, 2017: 15). Whether and how this practice would become truly “professionalized,” both technically and morally, remains an issue of interest to business ethicists.

The unethical behavior highlighted in this article, including excessive focus on short-term stock price maximization, excessive desire for investment banking revenues, and unrealistic optimism in earnings forecasts, may be attributed to the phenomenon of “financialization” (Krippner, 2005). Embedding a mindset of evaluating products, practices, and individuals based upon market value, financialization positions profit, stock price, and shareholder value as “not only an ethic but the ethic” in capital markets (Dobson, 2003). Nevertheless, after the global financial crisis, some business ethicists have pointed out that financialization can be morally problematic (Sison & Ferrero, 2019). Despite focusing on the ethical dilemmas occurring before the global financial crisis, this article shares a similar view and makes visible the moral aspect of financialization. It further sheds light on how analysts were prompted to turn away from short-term earnings and share price to embrace a new “ethics” in financial markets, namely, to account for ESG issues that are relevant not only to investors but also to society at large. Certainly, the process of translating ESG criteria into financial numbers in investment decisions reflects an increasing degree of financialization, as objects initially outside the financial sphere are colonized into financialized calculations (Arjaliès & Bansal, 2018). Instead of reversing the process of financialization, financial professionals are expected to acknowledge the moral impacts of financialization and identify ways of maintaining prudence in whatever they do (Dembinski, 2017: 66), including, as this article suggests, in their work on corporate governance.

CONCLUSION

Some view analysts' involvement in corporate governance as self-interested, and hence immoral (Gullapalli, 2004). It is beyond the scope of this article to evaluate whether this practice, which has now become more prominent, is ethical or otherwise; as for Foucault, ethics are always indeterminant (Ladkin, 2018). What this article can identify is that analysts' corporate governance work emerged as a potential solution to diverse ethical problems in financial markets. As an ethics event, the emergence of this technical practice in financial markets is examined here in terms of its conditions of possibility. This article enhances our understanding of how ethical problems in financial markets are constructed, how ethically relevant practices are developed, and how ethical subjects are determined through discourses and power relations.

Conditions of possibility, however, may be fragile. Both the fall and rise of analysts' corporate governance work have been witnessed since its initial emergence. This reflects the outcome of changing conditions of possibility. Future research may examine how the conditions initially enabling or restricting analysts' involvement in corporate governance have ruptured and transformed. Specifically, in relation to the decline of this practice at the end of 2008 (Wheelan, 2008), future research may analyze how the norms, discourses, institutional dynamics, and power relations traced in this article were transformed so that analysts' corporate governance work was no longer perceived as a solution to ethical problems in financial markets. In relation to its resurgence from 2010 onwards (Wheelan, 2010), future studies may investigate to what extent analysts' engagement with corporate governance could endure by focusing on the conditions that may make this possible.

This article treats analysts as a "population," emphasizes discursive formation, and utilizes archival material. Following Foucault's intellectual trajectory, future research may investigate how analysts act upon themselves and respond to conditions that either enable them to work on governance issues or constrain them from doing so (Koopman, 2013; Prado, 2000). Particularly, it would be interesting to explore how analysts utilize their involvement in corporate governance as an opportunity to craft ethical selves in financial markets, by focusing on their freedom and capacity to do so. This future research points toward a different methodological approach from the one adopted in this article. It could focus on how "individual" analysts exercise ethical agency, attend to individual narrative construction, and require interviews with analysts to be conducted (Prado, 2000).

While this future research is important, this article brings Foucault's genealogy into finance ethics research and develops the concept of "ethics events" to analyze the genesis of ethical problems and ethically relevant practices in financial markets. It reveals that multiple regimes of truth and complex historical contingencies may provide the conditions in which ethics events can occur. A phenomenon, which does not appear ethically relevant at first sight, may become an ethics event under certain conditions of possibility.

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