Throwing in the towel

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What happens when analysts' recommendations go wrong?

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Abstract

Every analyst will experience stock recommendation failures during their career. Unlike many other professions, these pivotal moments occur in the full glare of clients, colleagues, equity-sales teams and the media. This research explores the practices of analysts up to and beyond the point where, faced with a failing recommendation, they contemplate 'throwing in the towel' on their recommendation. Based on empirical evidence gathered from interviews with sell-side analysts and their key interlocutors – equity-sales specialists, investors and investor relations officers – this paper uncovers several new empirical insights into the recommendation practices of analysts. The main argument made in the paper is that capitulation practices emerge from the specific contextual framework of individual recommendations and the analyst's conduct as a knowledgeable, emotional human agent. We identify several contextual contingencies of stock recommendations that underpin how a capitulation episode unfolds, including the temporal proximity of the capitulation to the original recommendation; the importance and profile of the stock to the analyst's reputation ('franchise intensity'); the level of interest/reaction from clients, equity-sales teams and corporates; the nature/cause of recommendation failure; and recommendation boldness. Our study provides evidence that what an analyst does when faced with a failing recommendation cannot be reduced to a predictable, rational process and informs our understanding of observed practices such as the reluctance of analysts to capitulate and why 'recommendation paralysis' often follows a recommendation capitulation.

Keywords – Sell-side analysts, stock recommendations, strong structuration theory, capitulation

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1. Introduction and overview

In terms of the moment of capitulation, it's a big call and it's one of the biggest challenges of what we do, the decision of, at what point, to throw in the towel. (Analyst 8)

In a robust and demanding field, where analysts forecast earnings and generate stock recommendations, they must accept the inevitability of periodic failure. A commonplace example of this is where a stock performs against a particular recommendation, such as an analyst with a 'buy' recommendation on a stock facing a precipitous fall in the share price. An initial reaction might be to consider this as a better buy opportunity (in other words, there is now more upside). However, if this unwelcome fall in the share price continues, the analyst may need to acquiesce to the market and capitulate, informally referred to as 'throwing in the towel'. This study is focused on these non-routine circumstances where analysts are faced with 'recommendation distress' in the full glare of clients, colleagues, the financial press and competitors.

We argue that, in common with many other aspects of sell-side analyst work, there are important social processes at play impacting how analysts cope with and act in these situations, consistent with the notion that 'markets are social, and calculation is social' (Beunza and Gerund, 2007, 33). Adopting this social paradigm has enabled scholars to reveal important and nuanced aspects of analyst work hitherto underappreciated. For instance, Spence et al. (2019) identified the role of analyst recommendations and reports as 'relational devices' to facilitate interaction with investors, rather than purely as investment advice. Relatedly, Leins (2022, 359) pointed out that 'analysts' individuality and narration', and not merely their models and calculations, are needed to understand sell-side recommendations as a social practice. To provide empirical evidence about these social processes, we embraced the research approach espoused in *inter alia* Imam and Spence (2016), Graaf (2018), Lee and Manochin (2021), and Stolowy et al. (2022) and engaged with actors directly to explore how analysts act, and interact, in practice drawing from their own words (Imam and Spence, 2016, 243). The theoretical and methodological approaches adopted in these (and other) qualitative studies have enabled scholars to depart from, for example, the traditional focus on whether analyst recommendations function as investment ideas, to address broader questions such as ‘What role do recommendations play?’ or ‘How can we understand analysts’ recommendation practices and decisions?’

The nature of recommendation capitulation

Our study focuses specifically on the practices and experiences of analysts when they ‘throw in the towel’ and capitulate on a poorly performing recommendation. It is important to discriminate between the regular revisions analysts make and recommendation *capitulations*. Given that our study explores the lived experiences of analysts, it is their perspectives on capitulation that are most relevant to our study. Rather than seeking a formal definition of capitulation, we listen to and interpret the words of the analysts themselves. Indeed, in the literature, we can see why an overly restrictive definition of capitulation might not be possible. For example, we might want to identify capitulations based on the speed with which analysts give up on recommendations. However, we already know that there is unlikely to be a clear answer to this, as the speed of recommendation turnover differs from analyst to analyst. Boulland et al. (2022) found that fast-turnover analysts revise recommendations every 6 months on average, while slow-turnover analysts took an average of 20 months (Boulland et al. 2022, 3). Therefore, developing a standardised time-based classification would be challenging.

Nonetheless, for further context, it is useful to consider data on recommendation changes to at least identify where capitulations are more likely to occur, given our evidence. Table 1 is a frequency table for different recommendation changes.

[Insert Table 1 around here]

As we can see in Table 1, going directly from buy to sell or sell to buy (effectively 'double downgrades' or 'double upgrades', as the analyst skips over the hold recommendation) is a relatively rare phenomenon. Such large moves are not consistent with the capitulation experiences of analysts in our study. As we shall see, after a capitulation, analysts in our study were reluctant to make immediate aggressive recommendations. The moves out of hold to buy or sell (rows 3 and 4 of the table) are also unlikely to be capitulations, as a hold recommendation does not represent an active call, so there is no significant recommendation to acquiesce on. By contrast, a move into a hold recommendation, out of a buy or sell recommendation, is much more consistent with the capitulation evidence in our study. Such revisions into hold are much more common recommendation changes, as the data shows, accounting for 51.4%[2] of all recommendation changes. We suggest that, based on our evidence, many capitulations lie within these two recommendation changes[3].

Research motivation, approach and contribution

We chose this topic for several reasons. First, stock recommendations are widely perceived to be one of the most prominent and important outputs of sell-side analysts,[4] and are relied upon by investors and other capital market participants (see, for example, Schipper, 1991; Womack, 1996; Bradshaw, 2009, 2012; Groysberg and Healy, 2013; Bernhardt et al. 2016; Kecskés et al. 2017; Loh and Stulz 2018; Stolowy et al. 2022), making them worthy of study in their own right. Second, and as explained further in Section 2 below, there are important and unanswered questions with regard to analyst recommendations. Although the literature has suggested that analysts' decisions regarding recommendation changes may be explained by, for example, the need to generate trading commissions or reputational concerns (see, for example, Bernhardt et

[2] The frequency of buy to hold is much higher, as there are many more buy recommendations than sell recommendations, a well-established pattern in the literature (for example Ryan and Taffler 2006).

[3] We also provide some data and commentary on recommendation revision time periods in online Appendix A.

[4] Hereafter referred to simply as 'analysts', unless a reference to 'sell-side' would be a useful clarifier.

al. 2016; Boulland et al. 2022), we have insufficient evidence to extrapolate these ideas directly to understand capitulation decisions on failing recommendations. Bernhardt et al. (2016, 5) argued that we would need to get 'into the minds' of analysts to understand their recommendation decisions. Although we cannot quite get 'into their minds', by engaging directly with key actors across the analyst ecosystem, our interview-based qualitative study is well placed to 'enter into another person's perspective' and to find out what is on 'someone else's mind' (Patton, 2002, 341). Such an approach can provide insight into the social processes around stock recommendations and, more precisely, provide rich empirical evidence on failing recommendations.

Such evidence would also be important for the qualitative analyst literature. Spence et al. (2019) conceptualised analyst research reports (and stock recommendations) as having both 'substantive' and 'relational' roles, the latter facilitating debate and interaction with the buy-side. An interesting question is whether the relational role of an analyst report becomes more or less important in certain circumstances, such as when an analyst gives up on an important stock recommendation. We suggest that the specific dynamics in place in such circumstances represent an interesting empirical gap or 'blind spot' (Graaf 2021) in the qualitative analyst literature, and so warrant further investigation. This study also responds to calls for more research that examines the interactions and social structures underpinning the work of analysts (Imam and Spence 2016; Lee and Manochin 2021), extending the empirical evidence collection beyond the sell-side and buy-side to include corporates and equity-sales teams.[5]

Hanlon et al. (2021) argued that explaining individual behaviours requires an interdisciplinary approach and engagement with theories beyond accounting and finance. For example, this

[5] Most analysts work in the 'sales, trading and research' divisions of investment banks; equity-sales teams are in-house specialists who work closely with analysts by marketing their research and providing feedback on their work. We use the term 'corporates' to refer to company management (e.g., CEO, CFO, Investor Relations Officers).

might entail embracing ideas from diverse fields of study such as psychology, behavioural finance, linguistics and sociology. For this study, while broadly privileging sociological theory as the major theoretical foundation, we also draw from literature on emotions and confidence. In particular, the study draws on theoretical insights from strong structuration theory (Stones 2005, 2015), which is based on the agency-structure ideas developed by Anthony Giddens in his work on structuration theory (Giddens 1984). Giddens argued that social structures, conceptualised as 'rules and resources', become part of the constitution of agents and are then implicated in the practices those same agents produce (Stones 2005, 5). Strong structuration theory represents a comprehensive overhaul and development of Giddens' previous work and has been designed to investigate the structuration processes around specifically chosen critical events (Greenhalgh and Stones 2010, 1288). In the context of our study, the chosen critical event would be a significant recommendation decision made by an analyst. The separation of social structures, between those within the agent, such as their general disposition (an analysis of agent's conduct), and those external to the agent (an analysis of agent's context), is central to the ontology of the theory (Stones 2005; Kennedy et al. 2021). Accordingly, our analysis and the discussion of the findings reflect this.

Although we agree with Jack (2017) that it is often fruitless to consider one theory as universally superior to another, we do suggest that strong structuration theory, which contemporaneously privileges consideration of the broader sociological context and the phenomenology of individual human agents (Stones 2005, 5), is suitable for exploring the practices of analysts in this study. Strong structuration theory has proved highly adaptable to a diverse range of empirical settings, including strategic investment decision making (Harris et al. 2016; Elmassri et al. 2016), enterprise risk planning (Jack and Kholeif 2008), capital budgeting in the specific context of the energy sector (Warren and Jack 2018), the evolution of carbon accounting rules (Moore and McPhail 2016) and, more recently and of specific relevance to this paper, sell-side analyst interactions with equity-sales teams (Lee and Manochin 2021). The use of strong structuration theory is particularly appropriate for research seeking to establish and explore routines that are in place, interactions between agents, the impact of the distance or proximity of these agents, and the nature of the institutions in the field (Jack 2017, 51). It is these types of issues – focused on agential interaction as well as contextual conditions in the field – that make the theory appropriate for our study.

We contribute to the literature by introducing several novel contextual themes that underpin analysts' practices on capitulation: franchise-intensity,[6] nature of failure, recommendation boldness, recommendation temporal proximity and reaction intensity. Franchise-intensity addresses how a stock with a failing recommendation is tied to the analyst's reputation. Our evidence suggests that analysts are often viewed as particularly expert on certain stocks, rather than uniformly across their entire coverage, and consequently, this is implicated in their practices. The more a failing recommendation is associated with an analyst's particular expertise, the more difficult it will be for them to give up on a call; so we see, for example, a reluctance to capitulate on franchise recommendations. The nature of the stock recommendation failure is also significant. Is it due to flawed analysis on the analyst's part or an unforeseeable change of circumstances? Our evidence suggests that capitulations resulting from flawed analysis are more difficult experiences for analysts, which erode confidence and make them reluctant to make further bold recommendations. Recommendation boldness reflects how significant the recommendation change is. For example, being the only seller on a stock and then capitulating may represent a pivotal event. Also, a capitulation that alters the balance of residual buys and sells in the market has the potential for high impact. Capitulating on high-profile, bold calls will likely attract more attention and potentially erode the analyst's

[6] In this context 'franchise' refers to the analyst's reputation among other participants in the market, such as clients, colleagues and competitors.

reputation and confidence. The temporal proximity of the original recommendation to the subsequent capitulation is also important. Analysts will struggle to 'throw in the towel' quickly, even if the stock recommendation is going badly wrong. Finally, the initial reaction to a recommendation will impact how an analyst acts and thinks about capitulation. So, a call that generates high levels of interest from clients and sales will present different capitulation challenges than one where the reaction has been muted.

The ontology of strong structuration requires scholars to interweave the critical field conditions described above with analysts' situational knowledge and dispositions to understand actions analysts choose to take or not. For example, in exploring why, after a capitulation, analysts in our study adopted the hold recommendation classification, it was not sufficient to draw on the contextual framing of that decision alone. In choosing not to make another active recommendation, the analyst subordinated (i.e., 'deprioritised') the generation of client attention, trading commission and ultimately, client votes. Instead, we draw from a number of theoretical concepts and ideas that lead us to conclude that the analyst is prioritising protecting their confidence levels and minimising regret. Absent this 'agent-centred' element to our analysis, we would fail to develop a meaningfully theorised understanding of analyst practice. We further exploit this approach to contribute to our understanding of other practices, such as the reluctance of analysts to capitulate in the first place.

Our theoretical contribution emerges from a form of theoretical bricolage, an 'assembly of readily available elements' of existing theory (Boxenbaum and Rouleau 2011, 280), giving our study a unique analytical perspective (Gendron 2013, 8). By drawing on theorisations about emotions from the psychology literature, in combination with strong structuration from sociology, we have deepened our understanding of analyst practices. We consider notions of confidence and regret to be central to understanding analyst (in)action. Such an approach also strengthens strong structuration, which lacks an explicit emotional element to its conceptualisation of agency.

The paper is structured as follows. In the next two sections, we review the relevant empirical and theoretical literature to position the study and identify our research question. Research methods are addressed in Section 4. The final two sections consist of an exploration and discussion of the empirical evidence and key themes, followed by a conclusion.

2. Related literature on stock recommendations

The provenance of stock recommendations is in the evaluative process analysts carry out 'to form their beliefs about the intrinsic stock values relative to their current market prices, and finally rate the investment potential of each stock' (Jegadeesh et al. 2004, 1084). This offers researchers a meaningful opportunity to study analyst judgement. Many scholars studying analysts' outputs view stock recommendations as a critical output from an analyst and one of the most important services that the analyst provides to clients (Schipper 1991; Womack 1996; Jegadeesh et al. 2004; Bernhardt et al. 2016; Kecskés et al. 2017; Caylor et al. 2017).

Although most research on analyst recommendations focuses on the success or otherwise of these outputs, other streams of research pivot towards understanding analyst practices by exploiting theoretical concepts and frameworks from sociology (for example, Fogarty and Roberts 2005; Tan 2014; Imam and Spence 2016; Chen et al. 2018; Graaf 2018, 2021; Leins 2018; Spence et al. 2019; Lee and Manochin 2021; Stolowy et al. 2022). This research stream privileges the study of economic actors and their interactions and experiences to enrich our understanding of capital markets (Knorr-Cetina and Preda 2012). It repositions scholars away from viewing outputs, such as recommendations, as predominantly 'calculative and rational', to embrace experience, analyst individuality and narration (Leins 2022, 359). It is predicated on the view that to advance our understanding of analyst behaviour we need to explore the ‘social arrangements that embed their work’ (Fogarty and Rogers 2005, 349). Adopting such a perspective, Spence et al. (2019, 24) found that sell-side ‘analyst work is characterised by significant and complicated relational expertise’. They argued persuasively that analysts require both social skills and technical expertise to be successful, and suggested that reports, such as those containing stock recommendations, fulfil an important function as promotional or legitimacy devices to help analysts gain access to clients. Other qualitative studies have supported the characterisation of analysts’ outputs as ‘consensus forming’ rather than acting as specific investment instruction (Barker 1998; Imam and Spence 2016; Graaf 2021). Our study focuses on recommendation capitulations, and so we are particularly interested in the literature on recommendation *changes*, often referred to as revisions, which is reflected in the literature synthesis below.

The significance of stock recommendation changes

Notwithstanding our focus on recommendation changes, it is important to appreciate that analysts have a range of other important outputs, such as earnings forecasts, which can also be revised to convey important information to the market. Scholars have exploited these different analyst outputs, for example, to discriminate between strategic and nonstrategic distortion in recommendations (Malmendier and Shanthikumar 2014). Although we do not address earnings forecast revisions in this study, this could provide an interesting avenue for future research, which we address in our conclusions.

A central question to justify our study is whether recommendation changes represent important capital market events. The literature appears to offer a resoundingly positive response to this question. Studies have established that analysts’ recommendation changes communicate valuable information to the market, significantly influencing share prices (Ryan and Taffler 2006) and that recommendation changes generate statistically and economically significant impact (returns) in as short a time period as the first 30 minutes after release (Bradley et al.

2014). Indeed, funds tend to trade together (herd) in response to analyst recommendation changes on the day of the revision (Brown et al. 2014). Rather than focusing merely on recommendation levels (for example buy, sell or hold), investors can maximise returns if they employ a strategy constructed around *both* levels and recommendation changes rather than just one (Barber et al. 2010). Li et al. (2015) examined the intermediary role of information in the context of stock recommendations and corporate news and found that analysts, through their recommendation revisions, are a significant source of information to the market. This was not limited to revisions which confirmed existing information but also those recommendation changes that countered the prevailing narrative.

Having established that recommendation revisions are important and appear to have information content, a second relevant theme to our study is the circumstances and conditions in which revisions become more or less meaningful. In the literature, consideration is given to whether the frequency of recommendation changes is important and whether the recommendations of those analysts who make more frequent changes outperform those who make fewer. This was investigated by Boulland et al. (2022, 4), who concluded that 'slow-turnover' analysts significantly outperform recommendation changes made by 'fast-turnover' analysts. They further observed that as analysts progress through their careers they tend to change their recommendations less frequently (i.e., become slower-turnover analysts). The suggested rationale for this is that analysts become increasingly aware that recommendation changes imply something has gone wrong with their previous view about a stock. To protect their reputation, they therefore make fewer revisions. A related study examined the determinants of analysts' reluctance to change recommendations ('recommendation stickiness'). Bernhardt et al. (2016) argued that, in practice, analysts infrequently revise recommendations because of reputational concerns, as it might lead clients to question the ability of an analyst who repeatedly revises recommendations on which they based investments, and this result is broadly consistent with Boulland et al. (2022). Bernhardt et al. (2016) developed a quantitative model of how analysts formulate recommendations. The authors posited and found that analysts revise recommendations reluctantly, introducing frictions[7] to avoid frequent recommendation revisions. They also set out empirical evidence that frictions are asymmetric, in that analysts introduce much smaller frictions out of hold recommendations than those into hold recommendations, reflecting, according to the authors, the reality that holds are undesirable as they generate lower levels of trading volumes.

The specific circumstances and type of revision have also been studied. Stronger stock price reactions have been documented when a recommendation change diverges significantly from consensus than when it closely approximates it (Jegadeesh and Kim 2010; Palmon et al. 2020). This indicates that the market recognises analyst herding (analysts mimicking other analysts' recommendations) and so reacts to analysis outside of its influence, termed recommendation boldness in both of these studies. Finally, the impact of analyst recommendations has also been found to be greater for stocks that have lower 'synchronicity' with the market, and stocks of smaller, younger and lower institutional ownership companies, which tend to have a poor information environment (Devos et al. 2015).

Linking the literature to our study

The evidence in the literature supports the significance of analyst recommendation revisions and provides evidence of when they are most important. The literature also suggests that a linear narrative, where economic rationality fully explains practice, is also inadequate. We see this, for example, in Boulland et al. (2022) and Bernhardt et al. (2016), where analysts' reputational concerns, an issue that might traditionally be viewed as outside the purview of

[7] In this context 'frictions' refers to barriers to an analyst deciding to make a recommendation change. So, for example, an analyst might put up fewer barriers to a recommendation change out of hold, in comparison to a change out of a buy classification, as holds typically garner less client attention. In other words, there are fewer frictions out of hold than out of buy.

economic rationality, are used to interpret at least some of the most important quantitative results.

To address these issues requires looking beyond classical economic models; so, one stream of the literature amplifies the importance of the social dimension to analysts' practices, seeing recommendations as relational or legitimacy devices, tools of narrative authority and mechanisms for establishing market consensus. That body of literature has addressed a wide range of research questions, such as whether analysts can compete effectively using only public information (Graaf 2021), the information intermediary role of the sell-side (Chen et al. 2018), analysts' interactions with equity-sales teams (Lee and Manochin 2021), the role of narrative authority as a component of analyst work (Leins 2018, 2022) and interactions between analysts and activist short-sellers (Stolowy et al. 2022).

Despite the extensive literature, we have not yet explored what motivates analysts to capitulate when their recommendations are not working. Questions arise as to how reputational concerns are balanced against other priorities. Is there any role for considering commission generation as a realistic objective in deciding whether to capitulate or not? If recommendations are failing, do they still play a role as a relational device? Bernhardt et al. (2016, 5) posed the question: 'When do analysts decide to announce new recommendation opinions?' and lamented that, 'Obviously it is difficult, if not impossible, to see into the minds of these decision makers…'. In our study, by engaging directly with actors who make these decisions and their key interlocutors, we hope to get as close as possible to this ideal, enabling us to address the empirical gap in the specific context of analysts' recommendation capitulation. Drawing from these empirical questions, the gaps in the existing literature and the discordance on how to understand analyst practices, our research objective is to understand analysts' experiences and decisions to capitulate in the face of a failing recommendation.

Although our study shares a sociology of finance orientation with a number of studies mentioned above, it has several distinguishing features. First, it focuses exclusively on stock recommendation *capitulations*. Second, it extends evidence collection to all of the key actors within the analyst ecosystem. Finally, it employs the analysis of both an agent's context *and* conduct using strong structuration, a relatively novel theoretical lens which is explored in more detail in the next section, together with our research question.

3. Theoretical underpinnings and research questions

Our study aims to offer empirically substantiated theoretical insights that aid understanding of the lived experience of analysts, especially in situations of capitulation. To do so, we engage with key notions from the theory of structuration (Giddens 1984; Stones 2005, 2015) to guide us through the collection and analysis of empirical evidence and generate meaningful theorisations (Makrygiannakis and Jack 2018). A key notion within the theory is that each action is not formed in a vacuum but is embedded in a social context that enables or constrains it. At the same time, this social context is also changing because of actions (Stones and Jack 2016; Coad and Herbert 2009). More specifically, to act, a social agent draws upon rules and resources, i.e., social structures, that are utilised to enact their intention. Some of these rules and resources are identified by the agent through their subjective understanding of their context as well as their own internal dispositions (habitus) and knowledgeability. While an agent is engaging in an action, their understanding of which resources and rules are relevant helps them process the situation and realise the difference their action makes. This has a transformational effect on both the rules and the resources implicated in the situation (Feeney and Pierce 2016; Greenhalgh and Stones 2010). The continuous interplay of social actions and social structures works to create new perspectives of what the relevant conditions are within a context and further shapes an agent's conduct.

To encapsulate the lived experience of social agents (analysts) we identify the distinctive episodes underpinning capitulation in a sell-side analyst's experience. An episode is a sequence of events marked by a beginning and an ending (capitulation). Jarzabkowski and Seidl (2008) suggested that while any activity can be thought of as having a beginning and an ending, the beginning and end serve as an orientation to what takes place in between. The analyst's experience before a capitulation (the beginning) is significant to their understanding of the episode, but additionally, the episodic nature of capitulations means that one episode feeds into the next. We suggest that the lived experiences of analysts' capitulation episodes are crucial in determining how further decisions and actions will be performed. We analyse capitulation episodes through a strong structuration theory lens that suggests, as addressed already, social agents draw on rules and resources to navigate the conditions that shape such episodes.

Strong structuration builds on the fundamentals of Giddens' original work but, importantly, brings the theory closer to empirical research. It achieves this through the deployment of methodological bracketing (Kennedy et al. 2021), an approach that encourages a focus on the analysis of an agent's context, while holding the analysis of an agent's conduct in abeyance as far as possible, and then reversing the approach to focus on conduct. This bracketing approach, and the insight to be gained by exploring both context and conduct, are central to the strength of the theory for empirical work.

We briefly consider each of these brackets below and some theoretical refinements to strong structuration to aid our analysis of the empirical evidence.

Analysis of an agent's context

Context analysis addresses the external field conditions facing actors. Stones (2015, 27) identified a range of facets of the environment (such as institutional and individual actors, networks, forces, and pressures), extending it to include relations and conditions surrounding the agent. Although some aspects of the external field might appear to be 'objective' in some sense, the external environment of the actor is always viewed through the actor's internal world, their experiences and words, and so extensive engagement with actors is required to adequately operationalise strong structuration (Stones 2005; Kennedy et al. 2021).

Analysis of an agent's conduct

Stones (2005) proposed two key elements within the bracket of conduct analysis. The first, 'general dispositional' or 'habitus', is conceptualised as a set of durable dispositions, tendencies, and perceptions which 'contribute to the production of social practices' (Mouzelis 2008, 230). The general-dispositional structure has its origins in habitus,[8] as originally described by Bourdieu. Bourdieu (1977, 214) defined habitus as a 'predisposition, tendency, propensity or inclination', which in turn, organises 'the way individuals see the world and act in it' (King 2000, 423). Agents acquire habitus through human experience and, although they may be born with greater or lesser potential, they 'are not born with a habitus' (Calhoun 2011, 308). The concept of habitus was Bourdieu's response to the enduring social question of the primacy of structures or agency (Calhoun 2011), although there is a contention that it fails in this regard (for example, King 2000). Stones (2005) embraced Bourdieu's work on habitus, embedding it as an essential part of the ontology of strong structuration.

The second element is termed 'situational knowledge' and brings us to more specific terrain, to 'this building, this lecture theatre, this city, these organisational routines and these particular people' (Stones 2005, 90). In this study, the specific issue is an analyst's stock recommendation decision, and whether to capitulate or not. Such a decision has its unique idiosyncrasies, requiring the agent to draw on their knowledge as they navigate the 'rules of the game' to help them decide how to act in a specific context. Stones (2005) recognised that to understand the

[8] Stones (2005) admitted the terms can be used interchangeably. However, referring to the *general-dispositional* allowed him to distinguish these forms of internal structure from situational knowledge.

practices of agents we need to embrace not only habitus, but also the unique quality of the particular task, challenge or decision they are facing.

Emotions and action

Although Stones referred to emotions, to date there has been no real development of the theory to consider this further. We are especially interested in where emotion plays a role in how the agent responds to the contextual contingencies they face, through the filter of their dispositions. As far as the authors are aware, there has been no substantive study of the role of emotion on sell-side recommendation decisions, although important work by Taffler et al. (2017) has explored emotion on the buy-side. One central observation of Taffler et al. (2017) was that despite evidence that fund-managers struggle to consistently beat the market, they 'promote their funds to investors on the basis that they are able to do what cannot be done' (Taffler et al. 2017, 53). Extending that to our work, stock recommendations are a central part of the analyst's role, and a significant capitulation is an admission of failure, in a similar way to how the poor performance of a fund manager reflects on their competence. Consistent with the evidence in Taffler et al. (2017), this can lead to an emotional response which we need to reflect on in our analysis of analyst practices. Based on a careful review of our interview evidence, with a particular focus on emotion and action, we identified two emotions of importance.

The first emotion is confidence, the belief that one can successfully complete a specific activity (Bandura, 1997). It has long been associated with theories of motivation in the psychology literature (Bénabou and Tirole 2002). Feelings of confidence embolden actors with 'self-assurance' and act as an incentive for action (Barbalet 2001, 86) allowing actors to 'persist in the face of adversity' (Bénabou and Tirole 2002, 872). A feeling of confidence is indeed central to action and represents the basis for it, especially in the face of uncertainty: 'Ultimately, then, the future remains unknown; and that which achieves its engagement is never only information or calculation, but necessarily a feeling of confidence' (Barbalet 2001, 86). This linkage between confidence and an uncertain future is especially relevant to analysts who are persistently asked to undergird their recommendations with predictions about the future. The other emotion we identified as part of our study is regret, one of the most important emotions that has been studied in relation to decision-making (Connolly and Zeelenberg 2002). In the context of capitulation, we can consider regret as 'self-blame' for the poor outcome of a recommendation decision. An interesting aspect of this for our work is the interaction of regret with 'action' and 'inaction'. In contrast to an agent choosing not to act (for example leaving a stock on an essentially neutral recommendation of hold), actions that lead to poor outcomes (for example a buy recommendation where the stock price falls) result in higher levels of regret, as agents associate the poor outcome with the course of action they *actively* pursued (Ritov and Baron 1995). Following on from this is the concept of 'anticipatory regret', as 'decision makers avoid decisions that they think might end up producing regret' (George and Dane 2016, 51), especially if actors can compare what would have been had they taken an alternative course of action. Analyst recommendations would be an example of a decision where ex post a more successful alternative course of action (with a different outcome) would be very clear and so is likely to result in more intense regret if things go very wrong.

Research question

Drawing from the gap and discordance in the literature discussed in Section 2, and the theoretical approach outlined above, our overall research objective is to understand analysts' experiences and decisions to capitulate in the face of a failing recommendation. Embracing concepts from strong structuration theory and elsewhere, this led to our research question:

How do analysts' interpretations of the context of a recommendation, combined with their dispositions, emotions and situational knowledge, help us understand capitulation decisions and practices?

There are two aspects to this question. The first is how analysts grasp the contextual field confronting them, and the second is how this understanding of the external terrain combines with their individual perspective as they come to act in particular ways (Stones 2015, 61). We accept that for the researcher there is inevitable overlap, and context and conduct can never be completely bracketed, but we found this bifurcation useful for structuring our study.

4. Research methods

The epistemological and theoretical positioning of the study narrowed the field of suitable evidence collection methods, as the intention was to understand the lived experiences of participants. This requires 'close engagement rather than objective, distanced capture' (Ahrens and Chapman 2006, 827). The researcher must interact and converse with individuals in terms of their understandings and subjective experiences (Cunliffe 2010). Additionally, we wanted to respect the conceptual methodology literature associated with strong structuration theory and choose empirical evidence-gathering techniques that satisfied the theory's ontological requirements (Stones and Jack 2016). In pursuit of such knowledge, and respecting the philosophical foundations of the study, the research was carried out as an interview-based field study. The recruitment of participants, the conduct of the interviews, and the broad approach to the analysis of empirical evidence collected are considered below, with all participants, beginning with analysts (the key 'agent in focus') and then their key interlocutors (referred to as 'agents in context').

Prior to conducting the in-depth interviews, an extensive pilot study was conducted. This involved three in-depth interviews and 5 focus groups, each with 4 analysts, to establish contextual evidence about the analyst field and to trial various approaches to topics and interview styles. For the subsequent analyst interviews, the participants needed to have sufficient knowledge and experience in making recommendation decisions. To recruit participants, two major surveys (Institutional Investor and Extel) were utilised alongside industry contacts and snowballing techniques.

Harris et al. (2016 1196) advised that strong structuration theory-based field studies would benefit from the explicit selection of informants who may be defined as agents-in-context, in addition to agents-in-focus. Based on this, and a desire for a more complete collection of evidence for our study, we extended our search for participants outside of the analyst group to include those from the broader ecosystem within which analysts operate, including equity-sales specialists, company investor relations officers and professional investors. This is an important and, for a study of sell-side analysts, a relatively unique aspect of the study, enabling the collection of more direct evidence. For example, rather than relying on inference from an analyst interview, we are able to access 'first-hand' the underpinning thoughts, experiences and understanding of corporate investor relations officers or equity-sales specialists about recommendations.

Similar approaches (for instance, the utilisation of external rankings and recommendations from other interview participants and other industry contacts) were also relied upon to recruit experienced professionals as 'agents-in-context'. For company interviews, employees with extensive investor relations responsibilities were sought from listed organisations who had direct contact with analysts. For equity-sales specialists, recruitment focused on those who were currently working in, or who had very recently worked in, an equity-sales role with extensive analyst contact. Lastly, for the professional investor group, the focus was on gaining access to buy-side analysts or portfolio managers who had experience dealing with sell-side analysts. In total, 16 agents-in-context were interviewed. An anonymised list of each participant interviewed is provided in the online Appendix B of this paper.

To address the research question, the study required an interview style that provided participants with the freedom and opportunity to recount their experiences and aid the researchers in interpreting and making sense of their day-to-day life and social interactions (Yanow and Schwartz-Shea 2006). The adopted approach was designed to unlock the participants' perspectives and take their opinions and claims seriously (Smith et al. 2009). It was driven by an interest in the lived experience of people and the meanings attached to that (Seidman 2013). The chosen interview format facilitated a balance between providing sufficient opportunity to explore issues without having to address extraneous matters outside the scope of the research project (Galletta 2013).

Importantly, the theory was engaged from the onset of the study, consistent with a circular research design that allowed the researcher to ask questions that 'secure data of both sufficient quantity and appropriate quality around certain conceptualisations and interrelations' (Makrygiannakis and Jack 2018, 78). This approach was reflected in the interview protocols. After ensuring participants were comfortable with the purpose of the interview, and appropriate consent was obtained, the interviews opened with questions about the career path participants followed in the lead up to their current role, what aspects of their roles were most important to them and how they prioritised their work. These introductory questions sought to unearth empirical evidence regarding habitus or dispositional framework and were designed to both perform as a 'warm-up' and gather useful evidence to apply strong structuration theory. Starting interviews with these types of open, rapport-building questions, covering familiar and uncontroversial topics, likely established a comfortable and safe context. This is especially important as the interviews moved on to more personal and sensitive content. Following the recommendation of Seidman (2013), interviews concluded with an open-ended question about whether the participant had anything else to add.

Consistent interview protocols were used for each interview, with small contextual changes to reflect the specific role of the participant (sell-side analyst, equity-sales specialist, corporate investor relations officer or investor). After the initial questions, we moved on to discuss issues such as the importance of recommendation decisions and who is interested in them, experiences of difficult recommendation decisions they had made (or experienced as agents-in-context), formal and informal rules on recommendations, and how their approach to recommendations had changed over time. The (taped) interviews ranged from 33 to 66 minutes in length with an average of 48 minutes.

Consistent with the guidance in Coffey and Atkinson (1996), analysis of the evidence arising from the interviews began as soon as the interviews commenced to ensure findings and thoughts were always fresh, and to inform, and indeed alter, the course of subsequent interviews. The approach consisted of five initial phases: transcription of interview recordings by a professional transcriber, review of transcripts to remove obvious errors, uploading transcripts and field notes into NVivo 12 qualitative analysis software, and extensive open coding, followed by clustering of coded nodes around broader categories. The final stages focused on an extensive 'back and forth' between the empirical evidence and coding to distil critical themes and consider theoretical reference points[9]. This process continued as we sought to refine the specifics of each theme and its unique narrative. In addition to debates and challenges among the co-authors, several follow-up interviews were conducted with experienced analysts to gather their reflections on the study's main findings and to explore particular areas in more detail. The last of these follow-up interviews took place in February 2022.

5. Findings and discussion

This section presents the evidence from the field study. Consistent with the broad approach adopted in Gendron's (2002) work on auditing, rather than presenting our empirical evidence in the format of a 'conventional' thematic analysis, we 'anchor' our findings around two illustrative episodes of capitulation blended with the broader interview evidence. As introduced in Section 3 above, an episode can be thought of as a sequence of events marked by a beginning (for example, making the stock recommendation) and an ending (capitulation). The essential

[9] We have included further details about this process in online Appendix C.

point about an episode is that the beginning and ending act as orientation devices to help us understand the activities happening in between (Hendry and Seidl 2003; Jarzabkowski and Seidl 2008). This conceptualisation of making recommendations as episodic also embeds a continuity within stock recommendation practice: 'the ending is both the ending of an episode and the beginning of something that takes place after the episode' (Hendry and Seidl 2003, 182). Drawing from complete episodes of stock recommendation capitulations, in addition to our extensive interview evidence, provides a less fragmented, more holistic perspective of the experiences of analysts.

Episodes of recommendation capitulation

The two episodes below were considered by the authors to be typical examples of what analysts experience, although, as mentioned above, we also drew heavily on the broader interview evidence.

Episode 1 – A case of 'Too little, too late'

I was so well known by this company that I used to go and speak at industry conferences about it. Although I covered 20 stocks, this was right up there as a personal franchise stock for me. Everybody knew that if anything happened at the company they would come to me because I knew it better than anybody else, or I thought I did. I had the stock on a buy for ages and it was one of my core buy recommendations with lots of conviction.

The bank I worked for had just done a capital raising for the company, and I, as the analyst (and true believer in the business), had maintained and reiterated my buy-rating. However, a few months later the company profit warned out of the blue. They had bought up a huge amount of holiday capacity and weak demand meant they had to heavily discount, resulting in large losses. That profit warning was followed by two others. It was hellish. I maintained my 'buy into the downgrade' stance throughout. After the second downgrade I started to have twinges about whether I was right, but I had an emotional bias with so much of my reputation invested in the company. When I eventually downgraded to a hold, I got lots of negative reaction, flak from sales – 'too little, too late'. When you have been burned this badly you just go quiet on that sector, because you lose your confidence as well and so I put everything related to it on a hold. My credibility on that stock had sunk so low, you are better off just giving up and waiting for a better moment. (Pilot analyst 3)

Episode 2 – 'From bad to worse'

The call was on a high-profile initiation on a large logistics company which was faced with significant challenges – a highly unionised workforce which constrained the company in *various ways and the arrival of a powerful, flexible new competitor ready to undercut the incumbent. I saw these two factors as 'clear and present dangers'. Consequently, I went with a sell-rating on the company. This was a significant call especially given the popularity of the company with a range of blue-chip income funds in Europe. The initial call was met with confusion as the sales-force did not really know what to do with a negative recommendation on a stock which was widely held by the long-only investment community. It was not a stock that hedge funds typically got involved with. Clients were generally indifferent to the recommendation despite what I considered to be a compelling negative thesis.*

Things went from bad to worse when, within weeks of making the call, a critical aspect of the negative case – the arrival of the competitor – unravelled. It was no longer going to happen. This removed a key pillar of my thesis and I decided to pull the call and upgrade to neutral. The actual capitulation was muted, perhaps because the call itself had not gained as much interest as expected in the first place. I tried to rationalise the episode as a 'change of facts' rather than 'flawed analysis', which helped me limit any negative emotions I might have felt. But there is no doubt it damaged my franchise. Additionally, on this stock, I cannot recall ever making a really aggressive call again. (Analyst 2)

We draw on these episodes throughout our analysis, but our initial focus is on the contextual specificities revealed within each episode. These details represent important field conditions which underpin the 'intensity' experienced by the analyst in a capitulation, allowing us to discriminate between capitulations that are likely to be more straightforward (low intensity) and those that present analysts with significant challenges (high intensity). This idea, that certain specific features of a recommendation may make it more or less impactful, builds on the work of, for example, Loh and Stulz (2011). They found that recommendation changes are more likely to be influential if they are, for instance, issued away from consensus, accompanied by earnings forecasts, and issued on growth, small and high institutional ownership firms. These findings corroborate some of our evidence, such as the importance of recommendations that deviate from consensus, a part of our 'recommendation boldness' construct set out below. Drawing from the capitulation episodes above, and the broader interview evidence, we have developed five contextual constructs, set out below, which we argue are critical field conditions that help us understand how challenging a capitulation might be. These are also shown in the upper part of Figure 1 below, which sets out the broad framework of our study. Each of these field contingencies can be thought of as structures[10] which form the environment in which the analyst is acting. After exploring each of these, we complete our analysis by combining these five aspects of context with the subjective interpretations of the analyst. These are analysed through the lens of habitus, situational knowledge, emotional filters and what the analyst decides to subordinate or prioritise in a particular situation. This results in outcomes which are the practices we observed in our evidence that we are seeking to understand. Figure 1 also recognises the recursive nature of structuration in that the outcomes (actions) feed into field conditions and agent dispositions such that these may be sustained or changed going forward.

[Insert Figure 1 around here]

Franchise intensity

In both episodes, the importance of the stock in question is central to the analysts' lived experience of their recommendation capitulation. In Episode 1 the analyst refers to the stock as a '*personal franchise stock for me*'. The 'franchise' referred to here is the analyst's reputation on that particular stock in the market. Although this analyst covers a large number of stocks, their reputation appears to be tied to a small number of these franchise stocks, where the analyst is somewhat akin to being 'the oracle' on that particular company – '*if anything happened at the company, they would come to me*'. Their standing as an analyst is bound up in these stocks; consequently, they are more emotional about their reputation being undermined and the perception of failure in the event of a capitulation. In Episode 2, the analyst does not refer directly to it being a franchise stock but does mention that the stock is '*high-profile*' and '*widely held*', suggesting that the stock is important to his clients and equity-sales team (i.e.,

[10] Although we think of structures as 'rules and resources', we need to move away from a narrow understanding of 'rules' as might be used in everyday language. Stones (2005), in explaining his interpretation, preferred us to think of 'rules' as 'schemas'. In other words, a framework which informs agents 'how to go on in a range of different circumstances' (Stones, 2005, 68). Such schemas may be more or less formal. For example, laws and regulations rather than norms and conventions.

agents-in-context). This is an initiation of coverage[11] from the analyst and so we might conclude that they do not have an established reputation on the stock.

When exploring capitulation, we employ the term 'franchise intensity' to describe the importance of the stock to the analysts' reputation. Higher levels of franchise intensity lead to different capitulation experiences and actions. This interviewee identifies the tension and restriction that franchise intensity brings to thoughts of capitulation – if many investors have followed your lead and you now capitulate, they may be left behind:

Let's assume you're a buyer and it's your franchise call, so therefore people have followed you, then you've got the Pied Piper, you've got a number of people behind you that if you change direction, and if you change quickly, they may not be able to. (Analyst 4)

Conversely, an analyst capitulating on a smaller, lower profile stock, or one where they do not have an especially strong market reputation, will have lower franchise intensity. Consequently, capitulation would be a less traumatic experience. This interviewee is relieved that when they were previously wrong on a recommendation, it happened on non-franchise (smaller) stocks:

I think I've been relatively fortunate in that the ones that I've got wrong have tended to be slightly smaller. (Analyst 8)

<u>Nature of the failure</u>

If an analyst capitulates, then we ascribe part of their reaction to the nature of the failure. For example, an analyst may abandon a recommendation because (unexpectedly) a new regulation is introduced in the sector. Alternatively, an analyst's recommendation may have been underpinned by complex and novel calculations. It would seem intuitive that the former would

[11] An initiation of coverage is the first report an analyst writes on a particular company. As well as providing the analyst's view on the stock, it informs the market that the analyst will write research, forecast earnings and make stock recommendations on this company going forward.

be much easier to capitulate on than the latter, and our evidence supports this reasoning.[12] In Episode 2, we can see that the analyst attempted to rationalise the capitulation as a '*change of facts*' rather than a '*flawed analysis*', which apparently helped '*limit any negative emotions*'. This contrasts with Episode 1, where the analyst pursued a recommendation of '*buying into the downgrade*', recommending a buy on a stock that is being downgraded, (share price is falling), by the market.[13] In that scenario, it is much more difficult for the analyst to distance themselves from the recommendation decision. In turn, this leads to more emotional responses to capitulation – '*it was hellish*', '*burned so badly*' – as the sense of failure is felt more profoundly. Other analysts exhibited similar emotional responses during times of recommendation capitulation, blaming themselves and their work rather than developments outside their control:

When I realised that I was really wrong, I was ashamed. I was ashamed of a lot. (Analyst 1)

Stock recommendation boldness[14]

Now we address another aspect of intensity, which is about potency of the particular stock recommendation. For example, if an analyst has a non-consensual position on a stock (for example, the only buyer or seller), pressures quickly build if the recommendation is not going well. In Episode 2 we see some elements of this. The analyst published a sell recommendation which '*was a significant call, especially given the popularity of the company with a range of*

[12] Making similar arguments, Graaf and Johed (2020), in an ethnographic study of analysts and related actors, presented evidence that analysts distinguish between those aspects of their work at which they are expert (detailed, deep analysis of individual firms) from inputs outside of their control, such as for example oil prices or currency rates.

[12] We have built upon the work of Jegadeesh and Kim (2010) and Boulland et al. (2022) in our development of the boldness construct. In those studies, boldness was measured as recommendation changes that move away from consensus. Although we very much support this work on boldness, our construct differs in that it is (clearly) non-quantitative and is also broader in scope. For example, we would encapsulate within our construct a leading analyst who is a well-known 'bear' on a stock, making a recommendation revision towards the buy consensus. This would be a bold move for that individual and would likely garner attention, but it is not a move away from consensus. We also recognise the reference to 'boldness' in Palmon et al. (2020), which explored the market impact of a subset of strong anti-consensus recommendations.

blue-chip income funds in Europe'. Here we can surmise that the rarity of this sell recommendation on this particular stock call would amplify recommendation boldness, as the analyst is somewhat 'out on a limb', distinct and separate from the crowd. In Episode 1, the pressure on the recommendation intensified as other analysts presumably capitulated in the face of multiple, sequential profit warnings.

Stock recommendation boldness also increases where the capitulation would change the balance of recommendations on a particular stock. For instance, as Analyst 4 mentions, '*If you are the last (say) bear in the market, the capitulation rating change can actually have real significance*'. In other words, the capitulation of the final buyer or seller is uniquely significant and so the capitulation process will reflect this:

… you don't want to be the only person on the name who is a seller, and the stock price is doubling, you feel considerable pressure to change your view on the stock and basically capitulate. (Analyst 6)

Recommendation (temporal) proximity

Time introduces another dimension of intensity to capitulation. The time that has elapsed since the original stock recommendation was made ('proximity') can greatly impact how an analyst reflects on the capitulation point. In Episode 1, although the buy call was well established, the issue of proximity emanated from the reiterations (i.e., reaffirmations) of a buy in the face of a series of profit warnings. In other words, quite quickly after the reiterations, the company's announcement of (yet) another profit warning undermined the initial call. In Episode 2 things went wrong '*within weeks of making the call*' and the analyst capitulated. Undoubtedly, such a rapid capitulation cycle would be reputationally damaging. We saw evidence from multiple interviewees that capitulating on a relatively recent recommendation would be much more painful for an analyst than a more established position. Here we see an analyst speak about a colleague who started ('initiated') coverage of a company with a positive recommendation, marketed this heavily to the sales-force, and then almost immediately had to deliver a negative message that the dividend had been cut, undermining the entire basis for the recommendation:

One of my ex-colleagues initiated coverage on a stock one day, they reported the next day and cut the dividend. I think that's pretty difficult to deal with…..having just done the rallying call on the salesforce and hit the phones and two days later you're phoning up to say, 'Sorry, the stock's 20 per cent lower and the dividend is 30-40 per cent lower than I thought it would be'.

(Analyst 8)

Reaction intensity

Central to the ontology of strong structuration theory is the need to conceptualise agents as being amid, and in the flow of, position practices (Stones 2005, 93). Analysts are embedded in contextual fields and so a critical component of their practice will derive from their anticipation of, and reaction to, the responses of networked others to their judgements, decisions and actions. As Thrift (1996, 54) eloquently put it, 'the ghost of networked others continually informs the actions of agents'. There is both a backward-looking dimension to this (how intense was the initial reaction to the call?) and an omnipresent anticipatory element to it (how will networked others react to a future capitulation decision?).

The reaction of other agents with regard to recommendations and capitulations features strongly in each of the episodes. In Episode 1, the analyst refers to '*lots of negative reaction(s)*' and the perception that their '*credibility on that stock had sunk so low*', illustrating the relevance of the reactions to capitulation. Episode 2, on the other hand, demonstrates that the initial reaction to the sell recommendation, which was met with confusion, can impact the subsequent response to capitulation – '*the actual capitulation was muted, perhaps because the call itself had not gained as much interest as expected in the first place*'.

Reactions to recommendations, both at the point when they are originally published and also when any subsequent capitulation happens, will come from sales, clients and corporates. The evidence suggests that the intensity of the initial reaction will inform the reaction to a subsequent capitulation. Intense interest in a call raises visibility and engagement and, consequently, may lead to more intense disappointment if capitulation takes place.

One final important theme that emerged from the evidence is how the reaction of *certain* clients has an immediate impact on the analyst. In our interviews, analysts refer to the particular importance of a sub-set of clients, termed 'the smart money'. Clients within this group are typically industry specialists, heavily analytical (consuming lots of data) and work for leading hedge funds. Analysts will often look for 'smart money validation' when they publish a stock recommendation. Here an analyst made a bold call, anticipating such a validation, but did not receive it, instead getting strong pushback which would have created pressure on the call from the moment of publication:

… the pushback was so hard. I took a final non-consensual call that there would be a number of smart investors that are there already, and you get validation early on from smart money, and, in this case, I got the exact opposite. (Analyst 4)

The acting agent

Why do analysts appear reluctant to capitulate? How do experiences of capitulation impact analysts' future practice? If we are to delineate what informs the actions analysts take, or choose not to take, the ontology of strong structuration requires scholars to interlace critical field conditions, addressed above, with analysts' situational knowledge and dispositions.

Situational knowledge refers to how the analyst would interpret the field conditions based on the specific scenario and their previous experience and knowledgeability. In this sense it is a natural extension of the field conditions described above and acts as a 'hinge' between the analyst and the external environment (Stones 2005).

The more experience an analyst has, the larger the stock of 'situational knowledge' resources they will have to draw upon. The literature already recognises the relevance of individual experience. For example, as we have already seen, the frequency with which analysts change recommendations is a function of analyst experience, with more experienced analysts tending to turnover recommendations less often (Boulland et al. 2022). The remaining element central to our analysis is the general disposition, or habitus, of analysts. Whilst the interview evidence did not reveal a typical 'analyst habitus', we did identify three areas of commonality across our participants. The first was entrepreneurialism, a desire for, and enjoyment of, the freedoms and flexibility that comes with the role, which was a clear core dispositional trait across our participant group. This is an important empirical observation as it reaffirms that analysts have significant freedom to make choices in many situations, including when faced with recommendation-distress. Second, our evidence supported the work of other studies (for example Groysberg et al. 2011; Brown et al. 2015) in identifying client broker votes[15] as the mechanism by which analysts judge their success. The final identifiable trait was that many analysts revealed that they feel failure acutely. Where a recommendation is not going well, for example, the share price is falling for a buy recommendation, our evidence revealed deep-seated feelings of anxiety and shame.

Consistent with the ontology of strong structuration, we can link these theorisations to an analyst facing a recommendation that is going against them, by examining the 'outcomes' we observed in our empirical evidence. Strong structuration based studies call on researchers to go beyond recording these outcomes in overly simplistic terms. For example, it might be that

[15] Investors, the clients of sell-side analysts, channel their feedback in the form of periodic broker votes sent to analysts' employers (Groysberg and Healy 2013). Each major client will send a 'broker vote' to its major research providers. Although there is no prescribed format for these votes, they generally list those analysts with whom the client has interacted accompanied by a score or vote per analyst, hence the term 'broker vote'.

in a particular situation, an analyst does not capitulate on a stock recommendation. As an outcome, this provides insufficient detail to enable an in-depth analysis of the process of 'interaction, negotiation, consensus and dissent' that produced the decision (Harris et al. 2016, 1196). The choices agents make to take one course of action over another can be understood with reference to the context that conditions their action, the task specificities with which they are faced and the dispositional filter they carry in the form of habitus (Stones 2005). These are the constructs we need to analyse in order to unravel analyst practice.

We identified three major 'outcomes' relating to capitulation practice emerging from our empirical evidence. Although these are by no means the only practices we identified, they are among the most significant. One theme relates to the pre-capitulation period (capitulation reluctance) and the other two to the post-capitulation period (recommendation paralysis and recommendation contagion).

Inaction – Capitulation reluctance

In Episode 1, the analyst maintained a buy recommendation in the face of a series of profit warnings, clinging on to the hope that the stock would turn around and recognising the '*emotional bias with so much of my reputation invested in the company*'. Conversely, in Episode 2, the analyst quite quickly capitulated once the facts changed. How can we understand and unravel the processes that might be behind these decisions?

To understand this divergence and the broader patterns in the evidence, we draw on strong structuration theory as well as other relevant theoretical concepts. First, we begin by reflecting on the specific contextual matters that drive capitulation intensity as set out in the earlier parts of the paper. For example, Episode 1 exhibits characteristics of high intensity (strong franchise intensity, the temporal proximity of a recent series of reiterations as well as intense interest and reaction from other actors), resulting in a stronger reluctance to capitulate. In Episode 2, the franchise intensity is diluted; it is not a stock the analyst is known for and the level of interest in the call is relatively low, meaning capitulation would be less difficult.

Second, as we move away from the external terrain, we observe the role of habitus and emotion in agents' decisions. We can see the importance of habitus in this extract from Analyst 7:

Personally, I have been poor at capitulating on a call, and I think in general analysts are slow to fix mistakes. For me, my personality and who I am are definitely implicated in this slow reaction. (Analyst 7)

Indeed, we see widespread evidence in our empirical data of analysts being reluctant to change recommendations, drawing on feelings and emotions ('gut') even in the face of sustained unfavourable share price movements. The extracts below illustrate analysts wanting to leave their recommendation unchanged for as '*long as possible*' (Analyst 10) or '*stick with this a bit longer*' (Analyst 11):

You ride it up for as long as you feel is possible and then it starts to feel a little bit uncomfortable. There is a lot of gut there as well; it's not just fundamentals. (Analyst 10)

Basically, not going with my gut and thinking, 'I've only just upgraded it. It's only been a month. It hasn't been working. I should really stick with this a bit longer', even though your gut tells you, 'This is wrong'. (Analyst 11)

Networked others also appreciate why 'throwing in the towel', even if deemed appropriate, would be difficult and take time:

I've rarely seen analysts put their hands up and say, 'I got that totally wrong'. If they do, it may well be quite a long time later. That's because of fear of being exposed, of being beaten up by the constituency within wherever they're working. It's a difficult thing for them to make a U-turn. It's also very difficult to see that the call's totally wrong. (Sales 4)

The analyst's disposition plays an important role and, as evidenced in the extracts above, appears to encourage procrastination. Stones (2005, 2015) encouraged scholars to look deeper at the nature of action and extend this to less orthodox aspects of analysis, including unconscious emotions and the analyst's ordering of concerns – what the analyst is prioritising/subordinating in choosing a course of action. On the former, this form of 'inaction' is consistent with the concept of 'anticipatory regret' from behavioural finance introduced earlier in the paper. An analyst may avoid making a decision about a capitulation as they are paralysed by the fear of getting it wrong and ultimately regretting their decision to give up on the recommendation. This form of regret is especially acute in situations where the analyst can subsequently compare the outcomes of their alternative courses of action (i.e., compare the outcomes of capitulation or waiting (see for example Ritov and Baron 1995)), which is clearly the case for recommendations. Furthermore, the analyst is subordinating any perceived need to update a recommendation and instead prioritising the avoidance of an admission of error, presumably to protect their reputation.

Synthesising this analysis, the outcome will be an interplay between situational logic and the analyst's dispositional frame. Although a quick capitulation might sometimes be consistent with the circumstances – for example a stock of little importance to the analyst's franchise, with a low level of initial reaction and no emotional attachment to the recommendation – in many cases the outcome is a result of complex subjective processes that will mean the capitulation decision will not be a straightforward one.

Post-capitulation – Stock recommendation paralysis

In our empirical analysis we saw significant evidence of analysts moving away from making high-profile stock recommendations after a difficult capitulation experience. For some analysts, it was clear that the sense of failure affected them profoundly. Their comments often revealed an emotional side, with negative emotions dominant when faced with failing recommendations. For example, disappointment – 'failure of someone's expectations to manifest' (Zaleskiewicz and Traczyk 2020) – but also regret and shame were commonplace themes. The analysts essentially withdrew from engagement on the stocks where they had abandoned a call:

I just put it on neutral, basically you just put your tail between your legs and sulk. (Analyst Pilot 3)

…just stuck it in that hold bucket and didn't look at it again for 12 months. (Analyst 2)

Based on our interpretation of the empirical evidence, we suggest that the 'connective tissue' between negative emotions, such as disappointment, on the one hand, and the subsequent inaction on these stocks on the other, is the level of confidence within the analyst. Here we are conceptualising 'confidence' as a level of self-assurance in one's capabilities (Barbalet 2001). After an intense capitulation experience, the loss of confidence an analyst experiences is antithetical to active agency. Pixley (2009, 392) spoke of the widespread fear of 'looking stupid' in her study of investment banking employees. A lack of confidence undermines the analyst, and they cannot easily calculate their way to confidence as there is no real evidentiary basis for it. Analysts appear to be aware of the necessity of confidence, as evidenced in this extract:

When I look at analysts that are struggling around me and analysts that are good, I tend to find that the ones who are struggling have a lot of self-doubt within them that is holding them back from making that call or putting out that note or delaying things etc. (Analyst 6)

We also observed this in Episode 1, where the decision to put the stock on a hold was '*because you lose your confidence as well*'. The genesis of confidence arises from recognition and acceptance (Barbalet 2001). We have evidenced that client recognition, in particular, is a critical measure of success for analysts and so a humiliating high-profile capitulation is likely to erode such confidence. Whether such an episode is a prelude to a period of inaction on that particular stock depends on whether the analyst can draw on other resources available to them as set out in the relational context of agents. For example, an analyst with strength in client relationships or a legacy of successful recommendations can draw on their strengths:

I think banking good calls increases confidence to do more of the same; capitulation, as you can imagine, does the opposite. (Analyst 2)

In essence, confidence can also be conceptualised as a social and emotional resource that an analyst taps into which in turn shapes their agency. We suggest that regret would also play a role here, as the analyst is less likely to regret inaction (positioning a recommendation in hold and leaving it there) than action (making another active call). The analyst, in choosing not to make another active recommendation, is subordinating the generation of client attention, trading volume and commission, and ultimately, client votes. Instead, the analyst is prioritising protecting their confidence levels, minimising regret and turning to other stocks where they have not had a recent failure. This is consistent with Leins' (2022, 359) conceptualisation of the analyst role as one that entails developing narratives that gain traction as 'expert knowledge' in the market. A recommendation failure suggests that such narratives have been weakened and so an analyst would want to act to protect other recommendations (and narratives) in the market that are performing, or have the potential to perform, by taking a low-profile hold recommendation on the capitulated stock.

Post-capitulation – Recommendation contagion

The acting agent is depicted in structuration as being in the midst of a constant flow (Giddens 1984). Decision making takes on an almost kinetic quality whereby one decision energises the need for another decision. This is especially applicable to recommendation decisions. By way of illustration, if an analyst upgrades a stock, a natural follow-on from this is to consider recommendations for other stocks. Therefore, analyst judgement cannot easily be delineated into discrete units of 'recommendation'. It is part of a larger, perpetual process. This is a point undervalued in the literature, where each recommendation decision is often analysed as if it was an isolated event.

Structuration theory sensitises us to the reality that, for many analysts, a capitulation on one stock may not be an isolated event, given that analysts cover sectors, and there is often commonality in the drivers across companies within sectors. Capitulation, while representing the end of one episode, may herald the beginning of another. As one analyst noted, the failure of an important, respected company within the sector may cast doubt far and wide about other companies and stock recommendations:

The company was always the one that was considered to be the best operator with an amazing Chief Executive. The other operators were considered to be absolute dogs, catastrophic, had already had a number of bailouts over time. And this kind of dented the entire industry because even the best operator and the safest operator demonstrated they could completely get it wrong and cast a big doubt over the whole industry. (Pilot analyst 3)

Stock recommendation decisions, including capitulations, should be seen as part of a continuum rather than discrete episodes. Agents will be aware that, to remain legitimate in the eyes of other capital market actors, a broader series of revisions/capitulations may be a by-product of an individual capitulation. In order words, resulting in recommendation contagion:

I think this is where it gets tricky, because you're caught out with one stock, but you cannot do these big adjustments just on one stock…You have to actually go and consistently apply the same type of process, GDP number, loan growth provision, the same outlook to all the stocks and see where you've cut more. So, I think that was extra pressure: you need to go through all the stocks. (Analyst 4)

Contagion may act as a further restraint on the actual capitulation, as the analyst realises the widescale realignment that may be required. Rather than merely requiring a change to one recommendation, multiple potential revisions may be required as a consequence of a decision to capitulate. This in turn may further amplify the intensity of the social and emotional effects experienced by analysts. Thus, recommendation contagion, arising from capitulation, may feed into further cycles of recommendation paralysis as analysts anticipate the scale of public acquiescence required.

6. Conclusion

This paper seeks to augment our understanding of the rich dynamics at play when an analyst capitulates following a poorly performing stock call. The main argument made in the paper is that capitulation practices emerge from the contextual framework facing the analyst and the analyst's conduct as a knowledgeable, human agent. It is clear that we cannot simply reduce stock recommendations to a technocratic act of economic deliberation alone (for example, see Spence et al., 2019). Similar to other aspects of analyst work, recommendations are essentially negotiated, emerging from cultural contexts and social interaction in addition to the tools of the trade available to analysts, such as valuation models and forecasting techniques (Leins 2022, 354). In this paper, rather than studying recommendations in general, we refine our focus to address situations where a recommendation is failing and an analyst capitulates, a hitherto unexplored aspect of analyst field practice. We seek to access the 'complex 'backstage' of practice in its social and organisation context' (Power 2003, 380), something for which qualitative research is especially suited (Power and Gendron 2015).

Capitulating on a high-profile recommendation closely associated with their expertise will, in many circumstances, be an intense experience for a professional analyst. Mouzelis (2008) argued that agents will be much more reflexive about their conduct when making non-routine decisions. We take the view that abandoning a recommendation qualifies as non-routine; consequently, analysts are likely to have reflected at length on these emotive experiences. This affords scholars interesting opportunities to gather rich empirical evidence through direct dialogue. While much of the qualitative research on analyst practice has successfully explored the general context within which analysts operate, it has de-emphasised the disposition and situational knowledge *within* analysts as human agents. In this study, we address both the contextualising frame of recommendation capitulation as well as the importance of analysts as human actors, to offer a richer picture of analyst practice.

An important component of our fieldwork evidence, which addressed the first part of our research question, established that analysts' experiences of capitulation are context-dependent. Our main contribution to the literature is the identification of five specific aspects of context that inform us about how difficult capitulation might be: franchise intensity, nature of failure, recommendation boldness, recommendation (temporal) proximity and reaction intensity. These dimensions of context, drawn from our participants' experiences, provide the basis for our understanding of why analysts, in particular circumstances, appear to capitulate with little difficulty whereas in other situations they find abandonment of a recommendation very difficult.

These contextual specificities also further our understanding of recommendations in general. For example, Spence et al. (2019) and Imam and Spence (2016) conceptualised recommendations, at least in part, as relational devices or constituents of consensus benchmarks rather than solely as substantive investment 'instruction'. Our evidence adds nuance to these findings, suggesting that the role of recommendations is dynamic and context-contingent. For example, a bold recommendation by an analyst on a franchise stock, which has garnered strong support from sales, will take on greater intrinsic 'investment' importance, with the relational device role, while omnipresent, being of lesser importance than in other situations.

The following two examples show how these contextual specificities allow us to build on existing analyst research and contribute to the literature. Loh and Stulz (2011) found that influential recommendation changes come only from a subset of skilled analysts, and an analyst who has had influential recommendations in the past is more likely to have success in the future. While our franchise intensity construct supports this assertion, we argue that rather than looking at an influential analyst in general, it is more appropriate to explore influential analysts on individual stocks, since the importance of a specific stock to a specific analyst is a clear empirical observation arising from our evidence. Loh and Stulz (2011) also found that recommendations outside of the consensus are more likely to be influential, and this finding corroborates our 'recommendation boldness' construct. However, our evidence suggests that boldness should not be construed in narrow terms. For example, an important analyst on a particular stock, who was known for having a long standing 'bear' (negative) stance, could make a bold move by upgrading to a hold or buy, even if this is a move in the direction of consensus. It is clear that context is intrinsic to understanding the situation. For the second example, we concur with Bernhardt et al. (2016) that there are rich dynamics at play in analysts' recommendations and support their contention that the level and direction of a revision is relevant to its 'stickiness'. However, even this quite nuanced observation can benefit from additional layers of context to better understand analyst practices. For example, consideration should also be given to questions such as 'Is this a franchise stock for the analyst?', 'What was the initial reaction to the recommendation?' and 'When was the initial recommendation published and reiterated?' Therefore, revisions from (say) buy to hold are not uniform in terms of 'stickiness' but depend upon a range of contextual details.

In addressing the second part of our research question, which related to the interaction of context and conduct, we uncover a deeper understanding of analyst practice such as why analysts make extensive use of the hold recommendation. The analysts in our study exhibit a form of paralysis as they place stocks into a recommendation 'void' after a capitulation. Despite the fact that hold recommendations have little interest for clients (for example, Bernhardt et al. 2016) and sales teams (Lee and Manochin 2021), in a difficult situation they become a ‘safe harbour’. We theorise that it is a diminution in confidence, embedded in analysts’ general disposition, that acts as a constraint on the analyst. In the same way that abundant confidence can act as an enabler, a lack of such a resource contributes to a restraint on action. Analysts draw on their emotional resources, their previous successful recommendation narratives and the successful calls they have ‘banked’, to garner confidence as a basis for action. However, the emotional nature and high profile of intense capitulations can leave analysts bereft of the required confidence levels to make any further high-profile recommendations. Hence the void becomes the holding pattern of choice, a limbo of inaction.

The theoretical work in this study occurred at different levels. The concepts within the theory acted as effective sensitising devices as we reviewed the evidence. For example, the importance of the positioning of analysts alongside other actors in the capital markets ecosystem (see for example Lee and Manochin 2021) highlighted how analysts anticipate the reaction of these actors and adjust their practice accordingly. In other words, each analyst action is informed, to a greater or lesser extent, by the anticipated and actual reactions of corporates, equity-sales teams and investors. In another example, structuration theory allows an exploration of the constraining and enabling character of structures. For instance, we have seen that the analyst’s reputation on a stock (captured by our franchise intensity construct) can be both enabling (the analyst’s strong reputation draws attention to their work and investors listen) and also constraining (the analyst realises that if they are wrong on such an important stock it may result in reputational damage and so they avoid/delay capitulation).

However, we also refine the theory by embedding concepts from psychology, repositioned to fit with our sociology of finance perspective, in particular confidence and regret, as these arose directly and indirectly in our evidence. We suggest that this modest theoretical bricolage (Boxenbaum and Rouleau 2011; Gendron 2013), where we combine strong structuration with theory and concepts from psychology, provides our work with a distinct analytical perspective.

The acid test for making a theoretical contribution is to show that the theory, with its refinements, enables us to understand in a meaningful way the underlying dynamics of analyst practices on capitulation. We suggest the theory facilitated a much deeper understanding of analyst 'inaction' versus 'action', evidenced by our empirical observation of a reluctance to capitulate or the subsequent recommendation paralysis. It allowed us to tackle questions such as why analysts might procrastinate on a recommendation capitulation or why, having just experienced a public failure on a recommendation, analysts do not want to make further aggressive calls on the stock even if that would gain attention for their research. We now know that to understand this inertia on the part of the analyst, we need to analyse 'emotion' as a catalyst for action. In other words, inaction emerges from emotional states that invite a supine response – a lack of confidence, an anticipation of regret.

We have already provided examples of how our empirical insights on analysts' practices complement and build upon the work of other scholars applying both quantitative and qualitative methodologies. We see additional opportunities for how our work might be built upon by others. For example, research could seek to identify how best to measure the 'franchise effect'. For instance, it might be measured by how trading volumes react to analyst recommendation changes on particular stocks and whether an investment strategy built around franchise stock recommendations works better than one based on other measures of analyst ability, such as performance in external surveys.[16]

Another way in which our work can be built upon by further studies relates to the boldness construct we have explored. To date, studies on 'boldness' in recommendations have focused broadly on anti-consensus calls (for example Palmon et al. 2020; Jegadeesh and Kim 2010; Boulland et al. 2022). Our broader conceptualisation of what might constitute a bold call,

[16] Surveys of investors seek to establish the best analyst in each sector. The survey run by Institutional Investor (II) is the best known. Those analysts who do well are termed 'all-star' analysts.

including for instance a long-time bull on a stock becoming bearish or a recommendation change that alters the balance of residual buy/sell/hold recommendations, opens further avenues to explore this important topic. Research could seek to establish a 'sweet spot' at which a recommendation revision alters the balance of residual recommendations sufficiently to make a market impact.

Researchers adopting quantitative methodologies could also exploit the type of data we presented in Section 1, and data online in Appendix A, on the timing and frequency of recommendation changes. Could insight be gained to discriminate between more regular revisions and capitulations? Finally, our concept of recommendation contagion could be leveraged to identify the characteristics of recommendation changes that lead to subsequent revisions across other stocks under an analyst's coverage. This would be of interest to those investment funds (and others) seeking to anticipate and predict future recommendation changes.

Our work directly builds on important insights from other scholars exploiting qualitative techniques and social theory to understand analysts and other relevant capital market actors (for example Graaf 2018, 2021; Abhayawansa et al. 2018; Spence et al. 2019; Imam and Spence 2016; Leins 2018, 2022). The next phase of this stream of research, which has already started to some extent, will include the adoption of a narrower, targeted focus addressing a range of specific analyst activities. For example, Stolowy et al. (2022) explore the role of activists versus that of financial analysts in the capital markets contest to dominate the narrative. This is an example of a move away from what analysts do, to more specific interactions and unique situations, and it opens up interesting possibilities for qualitative approaches. It has the potential to deepen our understanding of both routine activities (for example, earnings forecasting and the importance of consensus) and non-routine aspects of analyst work (for example, new listing (IPO) 'investor education' research or the role of analysts in sensitive activities such as block trades or mergers and acquisitions). Many of these more specialist areas would particularly benefit from extending interview and ethnographic studies beyond the agent in focus (the analyst) to other actors in the field. This extension beyond the agent in focus to the broader ecosystem is an important aspect of this study, albeit we accept that the practicality of access and resources will always be a relevant factor to consider in research designs.

In conclusion, it is inevitable that over a long career, many analysts will have to deal with the challenges of capitulation. To understand analyst practice, direct dialogue provides a distinctive opportunity to engage with key actors and listen to their reflexive thoughts about what they do and why they do it (Coad et al. 2015). This approach yields a range of thoughts, questions and issues we need to disentangle to understand recommendation practice, including:

- How important is the stock to the analyst's franchise?
- What has been the analyst's recent success with calls on this stock and recommendations in general?
- What has been the reaction to, and the ongoing interest in, the recommendation?
- What is the anticipated reaction to a capitulation?
- How does the analyst feel in terms of levels of confidence about the particular company in question and in general?

Analysts bear the scars of past recommendation failures. Consequently, not all recommendations, nor capitulations, originate from the same place. We suggest that building on our findings in future studies will improve our understanding of why analysts act as they do, and how this impacts their role in capital markets and the nature of their most significant outputs.

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Table 1. Incidence of analyst recommendation changes and average length of revision period.

Recommendation changes (by types)	Average length of revision period in days	Incidence of recommendation changes	Incidence (in %) of recommendation changes relative to the total number of recommendation changes
Buy-to-Sell	221	4,706	2.1%
Sell-to-Buy	199	3,496	1.6%
Hold-to-Sell	210	23,959	10.7%
Hold-to-Buy	215	76,345	34.2%
Buy-to-Hold	244	92,727	41.5%
Sell-to-Hold	180	22,210	9.9%

Notes: Data are obtained from I/B/E/S (Institutional Brokers' Estimate System) Historical Detail Estimates database US File. The sample includes the universe of US firms and covers the period January 2000 to October 2022. Data exclude stale recommendations (i.e., when the analyst has not updated the recommendation for two years or longer) and recommendation changes within the same recommendation band (e.g., from 'buy' to 'strong buy').

Figure 1. Model of analyst capitulation practice