Persuasion and decision making:
An investigation into the methods of persuasion used by sell-side broker dealers to influence buy-side asset manager investment decisions pre- and post-MiFID II regulation change in the investment industry.

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Title

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Abstract

MiFID II is a series of regulatory changes that impact the financial services industry. For investment banking, it represents more than compliance and transparency rules, it changes the nature of the persuasive communications between financial institutions and institutional investors, namely sell-side brokers, and analysts, with buy-side asset managers. While initial research into MiFID II impact focused on the promotion of electronic trading platforms and monetization of sell-side research, little attention has been given to how MiFID II impacts the persuasive tactics used by brokers to influence manager investment decisions. This study investigates how brokers persuade pre- and post-MiFID II and outlines the impact of MiFID II on those methods.

Using dual process models of persuasion as the theoretical framework, this study examines the use of confidence, source credibility, rapport, and social proof as peripheral routes to persuasion which encapsulate the tactics brokers employ through common channels of communication with managers. This study also examines the use of sell-side research as the central route to persuasion and finds that its use is integral for managers to make informed investment decisions pre- and post-MiFID II. This study finds research quality has increased post-MiFID II, yet production has decreased and serves as the major unintended consequence of the regulation contrary to its aims.

Through semi-structured interviews and a thematic analysis, the specific methods of persuasion are examined as well as industry relationships, MiFID II fears, the use of compliance marketing, and new practices broker use to overcome MiFID II impact. This study contributes to the growing body of MiFID II research and provides a

new context to understand financial services marketing using dual process models of persuasion. Findings from this study may help other industries looking at MiFID II as a template for their own industry-wide change.

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Contents

Introduction

0.1 Introduction

The Markets in Financial Instruments Directive II (MiFID II) is a series of regulatory changes that impact the financial services industry. In the investment banking sector, it represents more than just compliance and transparency rules that have progressed since MiFID I (Casey et al., 2009) it changes the very nature of the persuasive communications between financial institutions and institutional investors, namely sell-side brokers, and analysts with buy-side asset managers. While initial research into MiFID II impact on financial markets has been around the promotion of electronic trading platforms for increased transparency (Busch, 2017; Prorokowski, 2015), and monetization of sell-side analyst research under the new rules to unbundle services from soft-dollars (Meager, 2018; Sokolova and Bahgat, 2018), little attention has been given to how MiFID II will impact the persuasive tactics used by sell-side brokers toward buy-side asset managers to influence investment decision-making. It is the purpose of this study to investigate the methods of persuasion pre- and post-MiFID II regulatory change and outline how the MiFID II framework has impacted these methods. Interestingly, though many papers exist on using persuasion theory to understand decision making in a consumer or political sense (Friestad and Wright, 1994; Meyers-Levy and Malaviya, 1999; Johar, Mehaswaran, and Peracchio, 2006; DellaVigna, 2003; DellaVigna and Gentzkow, 2010) and even financial accounting (Elliott, 2006); applying a persuasion lens to the investment industry for sell-side persuasion methods is under researched. The majority of investment industry decision research is focused on buy-side asset managers (Tuckett and Nikolic, 2017; Chong and Tuckett, 2014; Aren 2019). Indeed, looking at persuasion theory to understand decision making in the investment industry is unique as changes to persuasion methods used to influence manager decisions are presumed reactive to MiFID II mandated industry reform rather than organically over time.

Key to this investigation are the understanding of dual process models of persuasion as a framework through which persuasion is practiced in the investment industry. This includes a combination of peripheral routes to persuasion used during interpersonal interactions; and central route to persuasion using informational influence on decision making (Deutsche and Gerard, 1955; Cialdini, 1984; Kahneman and Tversky, 1979; Thaylor and Sunstein, 2009). Based on this framework, it is proposed that due to MiFID II, sell-side brokers will have to adjust their existing methods of persuasion and find new ways to influence asset manager investment decisions outside of social interaction and 'soft-dollar' arrangements. Soft-dollars being the bundling of services to provide managers with sell-side analyst research for 'free'. From a theoretical viewpoint, then, this study investigates the impact of industry-wide regulatory change on persuasion methods from the underrepresented sell-side, applying dual process models of persuasion to understand how brokers persuade manager investment decisions. From a practical viewpoint, this study provides significant insight into the impact of regulatory change on industry actors which may help regulatory bodies to better understand the human impact of legislative reform for future regulatory change. In addition, study outcomes may help other industries better assess the relative successes and failures of MiFID II if looking at it as a template for their own industry reform.

The following section defines industry actors and their key job functions as it pertains to this study. This includes sell-side brokers (hereafter brokers), sell-side analysts (hereafter analysts), and buy-side asset managers (hereafter managers). While managers are not the focus of this study, including a definition of their role helps provide necessary context to both brokers and analyst roles. By understanding these roles, their main job functions, and by establishing common terminology for the present study, it is possible to understand the structure of the industry, the flow of information, and the relationship between sell- and buy-side industry actors as part of the investment process.

0.2 Defining industry actors

For the present research, the key participants studied are brokers and analysts. Though this study is predominantly concerned with broker persuasion methods, brokers act as gatekeepers of analyst and analyst research access which is key for managers to make informed investment decisions. As will be seen later, brokers indeed leverage their analysts in both industry position, and research quality as persuasive methods to influence manager decisions. Managers are therefore only mentioned in the context of being the target persuasion group, not as specific research participants.

0.2.1 Brokers

Brokers by definition are buyers and sellers of securities such as stocks, bonds, and other financial products. They sometimes full fill a dual role in selling on behalf of their own firm as well as offering advice to managers on which securities are the best to purchase at that time. This advice is typically provided in the way of analyst research which provides in depth financial information that managers use to make investment decisions. In doing this it is possible that a broker can advise to buy securities from their own accounts in which they receive commissions from both sell-side and buy-side transactions. This double commission from the duality of the role might involve a conflict of interest on behalf of the manager, where the broker is incentivized by commission rather than advice (Edelen et al., 2012). MiFID II is aimed directly at removing such conflicts of interest by separating out advice (analyst research) from commission payments.

0.2.2 Analysts

Analysts are the financial gurus of the investment industry and on the sell-side, provide an opinion based on their in-depth research and analysis of a company or their securities. Their main job is to ‘follow’ a list of companies in a particular industry and write regular research pieces called notes for use by their firms’ clients. Ultimately, analysts review investment options and provide a prediction and recommendation on what financial security products their clients should invest in. Because of their industry knowledge, analysts hold a particularly strong position in the investment industry and will be invited to meetings with managers and their investor clients to answer questions about their research. Analysts, however, are not considered the customer-facing voice of a brokerage firm, brokers are. Brokers are the first point of contact for both company and manager communications, who utilize the research provided by analysts to gain manager interest and ultimately sell securities based on the research recommendation.

0.2.3 Managers

Managers are investment professionals on the 'buy-side' that handle investment decisions for the investors whose money is in their investment fund. It is up to the manager to make the best decision possible with the highest possible returns. As such, managers have extensive financial market knowledge, albeit less than brokers. While managers also conduct their own research on financial markets, they rely heavily on brokers to advise them on investment options that meet their clients' requirements (Taha and Petrocelli, 2014). This is done through the use of analyst research who typically work for brokerage firms. In this way, Managers are dependent on brokers for the information needed to make investment decisions.

The main difference between brokers and managers is fiduciary responsibility (Tittsworth and Edelstein, 2004). Managers are held to stricter codes of conduct than brokers and are required to put the interests of their clients' financial requirements first (Haslem, 2011). Indeed, managers are legally required to seek the best transaction execution on behalf of their investor clients (Erzurumlu and Kotomin, 2016). Managers typically have minimum investment amounts and deal with professional investors rather than 'average' people seeking financial advice. Manager clients are investors which may refer to individuals, groups, or companies using financial resources such as pension funds for their investments. Investors typically employ managers to make sound decisions for maximum return on their investments. Managers, then, must ensure they have access to pertinent and thorough investment data before making an investment decision.

0.3 Chapter outlines

This study is organised as follows: Chapter one begins the review of the extant persuasion literature. The focus of chapter one identifies that of the available theories that may apply to the investment industry, dual process models of persuasion are the most applicable to this research. This is in part due to the deeply embedded relationship-based culture that exists between brokers, analysts, and managers; the historical practice of soft-dollars, and the necessity for detailed financial information to make investment decisions. The remaining focus of chapter one draws upon the use of dual process models of persuasion (Evans and Stanovich, 2013) to understand how brokers persuade managers. Specifically, the framework of peripheral and central routes to persuasion are used in this study (Cialdini, 1984; Petty and Cacioppo, 1986). The chapter focuses on peripheral route or 'system-one' (hereafter peripheral route) persuasive methods as an entry point to initiate central route or 'system-two' (hereafter central route) processing of sell-side research to ultimately succeed in influencing a manager investment decision.

Chapter two introduces MiFID II and a provides a review of soft-dollar arrangements as the delivery vehicle through which broker persuasion methods are employed. Research shows that pre-MiFID II, soft-dollars as a means to provide research to lower manager expenditure, for example, permeated the majority of transactions in the investment industry as far back as the 1950's (Blume, 1993; Erzurumlu and Kotomin, 2016). This is particularly poignant because it shows soft-dollars as a deep-seated cultural norm which is abruptly stopped by MiFID II. As a result, MiFID II may carry with it notable fears and concerns from industry actors who have relied on this practice to conduct business. Chapter two continues with a review of the regulatory landscape and what the MiFID II regulatory change intentions are. This includes possible unintended consequences, industry fears, and the impact to persuasive routes are discussed. MiFID II, for example, changes the way in which brokers, analysts and managers can communicate. It also mandates the separation of research from transaction fees. This represents a massive change to financial communication permissible between industry actors, impacting their relationships and delivery of research using the soft-dollar method. The chapter concludes with the research questions.

The remaining chapters three through five include the following: Chapter three is the methodology chapter and provides a description of methods, research design, sampling, data collection method, and ethical considerations. The potential obstacles in data collection are also discussed. Chapter four is the data analysis chapter derived from responses to participant interviews and are discussed in relation to the research questions. Each question and sub-question are addressed in order as outlined at the end of chapter two. The last chapter, Chapter five, provides the discussion and conclusion to this study as well as self-reflections as a researcher and recommendations for future research.

Chapter One: Persuasion

1.1 Introducing persuasion

Persuasion is any communication designed to influence a person by altering their attitude, belief or ideal (Simon, 1976). It is studied and measured in order to change human behaviour for gain (Ludeke, S., Johnson, W., Bouchard, T., 2013; East, 1990; Mullen and Johnson, 1990). However, there must be something evident from the recipient of the persuasive message in order for it to be considered persuasive. Persuasion and its effect on making decisions take a priority seat in our lives, while some decisions, such as walking, require no outside stimuli, other choices do. Decisions are thus part cognitive, and part based on social factors that persuade us one way or another (Wright, 1975). In the context of this study, persuasion is “any effort to modify an individual’s evaluations of people, objects or issues by the presentation of a message” (Petty and Cacioppo, 1986) that is provided by one agent intended to change the behaviour of another agent (DellaVigna, 2003; DellaVigna and Genzkow, 2010). Specifically, this means any effort made by brokers to influence manager investment decisions.

1.2 Existing theories of persuasion

The following section provides a critique of the literature around persuasion theory. Two theories of particular interest are the Persuasion Knowledge Model and Dual Process Models of persuasion. These theories are introduced, discussed, and applied to the current research objectives which show dual process models as the most apt and appropriate persuasion framework for this research. Following a review of the persuasion theory literature, peripheral and central routes to persuasion found in dual process models are outlined in more detail including the key peripheral routes of interest in this study. These are confidence, source credibility, rapport, and social proof. These peripheral routes act as decision short cuts that managers can lean upon at the outset of their investment decision process. The section concludes with an explanation of central routes to persuasion and why they are necessary in specialist markets such as the investment industry to inform manager investment decisions.

The first theory of persuasion that sheds light on the cultural interplay between brokers and managers in making investment decisions is the Persuasion Knowledge Model (PKM) (Friestad and Wright, 1994). How brokers and managers interact is explained well by the PKM. However, because MiFID II directly affects sell-side research as a bundled service through soft-dollar arrangements (Lins, 2003), the PKM is only explained below in relation to communication from brokers to managers, not managers to brokers.

The reason why the PKM is interesting is because it provides additional factors that lay outside economic theory such as specialist topic knowledge, persuasion knowledge and recipient knowledge as decision influencers. The latter relates to a recipient (manager) being aware of tactics used by a message giver (broker) to influence the recipients' decisions, which in turn affects how they are persuaded by that message giver. In this sense the PKM describes persuasion as a set of interactions when one agent attempts to influence another by presentation of a message (Friestad and Wright, 1994).

Further, brokers are information providers using analyst research as a communication tool to influence managers. As an information provider, according to the PKM, brokers consider three sources of knowledge when presenting their message: topic knowledge (indicative of the specialist industry); persuasion knowledge (what methods they will use to influence by, such as: friendships or existing relationships, past success, money under management, report disclosures and analyst research); and recipient knowledge (what the broker knows about the manager to assist in the persuasive attempt). Using the PKM, an example of how brokers influence managers is as follows: analysts employed by brokerage houses produce detailed research of investment opportunities (Ramnath, Rock and Shane, 2006) for the broker to provide to managers in an effort to persuade them to invest. Because managers do not have the same access to such detailed information as the broker does, they rely on this research to understand the opportunity beyond public financial disclosures (Taha and Petrocelli, 2014). Brokers frame the opportunity in various communication channels in order to generate commissions from a transaction with the manager (Cowen et al., 2006; Lin and McNichols 1998) and over time, gain a reputation for having accurate research for a favourable investment (Mikhail et al. 1999).

Similarly, under the PKM, managers follow a similar process of consideration when receiving broker messages to help determine how they will process and respond to that message. In this regard, the PKM assumes managers have their own topic knowledge (financial industry knowledge such as common disclosure requirements); persuasion knowledge (the promise of a large financial transaction through the broker) and knowledge of the broker from past interactions (relationships). However, while managers rely on brokers for detailed information, they both have pre-existing financial market knowledge. As such, knowledge asymmetry as a persuasion tactic may have less applicability in this research than a study between a broker and a lay person (Bellofatto, D'Hondt and De Winne, 2018; Roscoe, 2015; Malmendier and Shankthikumar 2007; Mikhail et al. 2006).

While the PKM provides good context into understanding the relationship between brokers and managers, it is not a complete theory of persuasion in and of itself, but a combination of theories that summarise the multifaceted nature of their two-way communication. Because brokers are inherently attempting to sell investment options to managers, other theories such as dual process models provide a better framework to explain methods of persuasion used by brokers to influence manager decisions. There are a number of other theories of persuasion including social judgment theory that assumes by knowing a person's attitude on a given subject it will give clues on how to tackle the intended persuasive effort (Sherif et al. 1965; Sherif and Hovland 1961); Cognitive Dissonance and Narrative Paradigm theory which focus on rationalising a decision once it's made and being most appealed to by story-like adverts, respectively (East 1990; Andrei et al 2015; Cialdini 1984; Anderson and Ross, 2001; Kapur and Tromala, 2015; Ying 2016; Harrison, 2006; Fisher 1985; Fisher 1989; Cragan 1997). Interestingly, while narrative paradigm theory is not explicitly utilized to explain persuasion methods by brokers toward managers, it may have a place within this research as a facet of dual process models. To explain this more fully, narrative paradigm theory is explained below.

According to Fisher (1985), people are inherently story tellers (Fisher, 1985). Most research using narratives has looked at narrative paradigm as general concept through which to look at communication (Fisher 2009). In the context of persuasive communications, there is no doubt that stories play a role in elevating the persuasiveness of a message above just facts (Gilliam and Flaherty, 2015; Boldosova, 2020). Indeed, research shows narratives or stories have a persuasive role in our cognitive functioning (McGregor and Holmes, 1999) and have been powerful tools used by management (Denning, 2006; Denning, 2004) marketing (Spear and Roper, 2013; Pulizzi, 2012), operations (Klein, Connell, and Meyer, 2007), sales (Gilliam and Flaherty, 2015), and notably psychology (Yang, 2013) where the theory originates. Narratives have also been shown to have application in promoting pro-decisions in healthcare communications (Chen and Bell, 2016), promoting military stories for more favourable views of the armed forces (McNamara, 2014), advertising and brand assessments (Stutts, 1999; Herskovitz and Crystal, 2010), and as a tool to help discern against unethical advertisements (Bush and Bush, 1994). Where Narrative Paradigm falls short, however, is that is grounded in emotive decision making (Aren, 2019) which does not fully apply to decisions in specialist industries such as investment banking (Dalsace and Jap, 2017). This may be one reason little research exists in the investment banking literature around narratives as a stand-alone sell-side persuasion method. Indeed, the sales and personal selling literature shows that stories help persuade or influence decisions, but sufficient relevance and information also need to exist for stories to influence buyers longer term (Herskovitz and Crystal, 2010; Gilliam and Flaherty, 2015). This notion of relevance and information for scrutiny is similar to how dual process models describe routes to persuasion. It begins with a more emotive initial approach known as a peripheral route that is supported with more in-depth information to influence the final decision as a central route.

Related narrative research that does exist in the financial sector is predominantly centred around Conviction Narrative Theory (Tuckett and Nikolic 2017). In Conviction Narrative Theory (CNT), in times of radical uncertainty, that is to say, in times when the outcome cannot be fully predicted, individuals create a narrative to build enough confidence and justification to act or decide (Tuckett and Nikolic, 2017; Chong and Tuckett, 2014). In the study by Tuckett and Nikolic (2017), they focus on an asset manager named Tristan Cooper. Tristan is considered a successful manager who decides to buy, then later sell, a security in a company that performs poorly over time but increases in value after Tristan cuts his losses. Justifications on whether to act or not act are cited, including past experience and expertise, personal meetings with company executives, and information from what other asset managers were doing with the same stock. Each of these justifications build to create a self-narrative which also acts as a self-persuasion tool much the same way cognitive dissonance aims to rationalise a decision after it is made (Tuckett and Nikolic, 2017). What this study fails to address, however, is the role of brokers and analyst research as an information source to Tristan's decision process. As will be seen later, the investment industry is structured whereby companies engage with brokers first, and not with managers directly. Similarly, brokerage houses are gatekeepers to any non-public company information and detailed financial information about the stock Tristan purchased. Tristan would have to be in contact with the source of this information prior to buying the stock. The fact Tristan met with the company directly signifies an earlier introduction happened with the brokerage house first. Following such an introduction, brokers then leverage their analysts' research to provide detailed information about the stock opportunity to the manager and are typically the first point of call when a profit warning is issued as in this example. In light of this, CNT appears to have greater relevance in the internal decision process of managers rather than how the sell-side influences that decision process. The idea of narratives, however, do have application in persuasion but give more attention to the emotive nature of peripheral routes to persuasion versus what additional data in the central route is needed to influence financial decisions.

It is important to note that narratives of stories by brokers to influence manager decisions are not being discounted, quite the opposite. Indeed, research shows that the use of stories on branding, such as a broker or analyst leveraging their position or firm as a brand to influence decisions, is found in the sales literature where sales people are able to positively influence buyer decisions through the use of stories over time (Hofman-Kohlmeyer, 2017). It will be interesting, therefore, to find out how brokers use stories as a persuasion tactic or whether the ability to utilize stories has been impacted by MiFID II, particularly due to stories being viewed as a way to build relationships (Gilliam and Flaherty, 2015; Claycomb and Frankwick, 2010), and where MiFID II changes the longstanding relationship dynamic between brokers and managers. Narrative theories of persuasion are one aspect of persuasion in the investment industry. Dual process models, however, provide a deeper and more holistic framework within which to understand investment industry persuasion methods overall. To illustrate this crossover citing the CNT example above, Tristan looked to his past experience as a factor for his self-narrative which informed his decisions. This is something dual process models would deem as a peripheral route to persuasion such as confidence (albeit an internal conviction versus an external source of influence). Similarly, reference is made to Tristan looking at other managers' decisions, which dual process models would deem as another peripheral route, seeking social proof from others during times of uncertainty. Also, the CNT study references the need for credible information sources (Tuckett and Nikolic, 2017), dual process models would call this a peripheral route in seeking source credibility. For the purposes of this study, then, dual process theories such as the Elaboration Likelihood Model factor in the emotive and cognitive processes involved in decision making as well as the need to understand an audience through peripheral or central routes of persuasion. (Petty and Cacioppo 1981; Petty and Cacioppo, 1983; Petty and Cacioppo, 1986; Evans and Stanovich, 2013). This is particularly true due to the specialist nature of the investment industry which requires greater information scrutiny (Dalsace and Jap, 2017). Dual process models are discussed in more detail below.

1.3 Dual process models of persuasion

Dual process theories contend that judgments, beliefs, and decisions result from two types of thinking and processing of information. The peripheral route is quick, based on emotional response or heuristic, and are more intuitive than deliberate. As a persuasive tool, they are used when the recipient of the message has either little interest in the material or little time to process the message. Managers have vested interest in the material but may have little time to devote the necessary cognitive attention for an investment decision and so begin the process by relying on initial impressions from brokers (Kruglanksi and Van Lange, 2012). The central route is analytical, based on scrutiny of all available data and deliberate after purposeful reasoning (Kahneman and Tversky, 1979; Kahneman 2003; Evans and Stanovich, 2013; Evans, 2008). As a persuasive tool, it provides managers who are vested in the topic the ability to assess detailed financial information before arriving at a reasoned decision. Dual process theories, then, provide the most apt framework in which to explain broker persuasion methods toward influencing manager investment decisions because it represents the combination of both relationship influences and detailed sell-side analyst research as part of an investment decision. For example, dual process models predict that unskilled lay investors are less likely to be persuaded by a complex research report than professional investors with specialist knowledge because they lack the necessity to digest in-depth research about the opportunity.

Similarly, the target participants of this study have specialist industry knowledge and are vested in knowing the material before making a decision. This means regardless of peripheral processing, both peripheral and central routes must co-exist in order to influence a decision as both elaboration and relevance is high between brokers and managers (Lavine, 2009); something that may not apply the same way in a business-to-consumer retail decision, or those made by individual investors. In fact, the individual investor literature shows that decisions are often made based on peripheral routes, namely emotional and heuristic decision making (Shah, Ahmad, and Mahmood, 2018), which makes them more prone to poor investment decisions rather than those decisions based on data (Singh, 2012). Indeed, Ahmad and Shah (2020) found that in their study of 183 individual investors trading on the Pakistan Stock Exchange, individual investors only performed better if financial literacy increased which helped mitigate investment decisions based on peripheral or heuristic cues (Ahmad and Shah, 2020). Though this is not explicitly targeting managers, it highlights the necessity for increased information and knowledge to mitigate the effects of less informed investment decisions. Managers achieve this through investment research. This is not to say decision short cuts are not useful. Indeed, this study underscores how brokers leverage peripheral routes such as their social relationships, past experience, confidence, stories, and analyst position as peripheral cues to help truncate the manager decision process. But as with the individual investment literature, peripheral cues only go so far. For managers to make informed decisions and to keep their fiduciary responsibility, greater information and knowledge information scrutiny is required to make investment decisions.

In addition to their usefulness in explaining persuasion in the investment industry, dual process models of persuasion are a longstanding focus of persuasion research since the 1970’s to the present day, adding to their reliability as a framework for this study (Kahneman and Tversky, 1979; Petty and Cacioppo, 1984, 1986; Chaiken, 1987; Wason and Evans 1975; Stanovich and Toplak 2012; Bago and Neys 2017; Kahneman 2011; Cacioppo, Cacioppo, and Petty 2018).

As part of dual process models of persuasion; confidence, source credibility, rapport and social proof are specific peripheral routes to persuasion of interest in this study. These particular peripheral routes combine to build trust, relationships, and ultimately persuade. Research shows, for example, that in dyadic exchanges the difference between a persuader and persuadee is confidence (London, Meldman, and Lanckton, 1970) and that the reliability of the message is based on the confidence through which the message is expressed (Thomas and McFadyen, 1995). Brokers who confidently communicate through common channels with a manager, then, should be considered persuasive. Similarly, research shows that people look to others to help inform their decisions (Rao, Greve and Davis, 2001). Managers may look to brokers or analysts as social proof for which companies to follow. In addition, source credibility is a well-known precedent to persuasiveness, particularly during times of decision uncertainty (Petty and Briñol, 2008; Chaiken and Maheswaran, 1994). A manager who is unsure which brokerage to use, for example, may rate their analyst as more credible than others, influencing their decision to consume that analyst's research before making a decision. Indeed, research shows that trustworthiness is often seen as a component of credibility (Shan, 2016; Li, 2012; Petty and Wegener, 1999; Priester and Petty, 2003; Fogg and Tseng, 1999; Self, 1996). Rapport has also been shown to increase the likelihood of successfully persuading through creating a positive first impression (Grahe and Bernieri, 1999; Acosta and Ward, 2011) which could be sustained to help build an ongoing relationship (Fiksdal, 1988). This is particularly useful if a broker is trying to establish a new connection with an unknown manager to convince them to consume their analyst research. Combined, these routes mean managers are more likely to listen to a broker and consume their analysts' research if they are liked, can build a fast positive relationship, is confident and able to articulate the facets of an investment opportunity from a position of credibility compared to a broker who does not command that level of certainty in their communications.

Lastly, peripheral routes can work together to build trust no matter the stage of a relationship. Cognitive-trust, for example, is considered to be built during a first impression (McKnight et al. 1998), which is part of the rapport building stage of a relationship, as well as from sharing information about the self during communicative exchanges which signals credibility (Greiner and Wang, 2007). Indeed, research shows trust is integral to the survival of any relationship and can lead to conducting business (Moin, Devlin, and McKechnie, 2016; Sekhon et al., 2014; Morgan and Hunt, 1994). Because of the longstanding practice of soft dollars in the investment industry (Haslem, 2011), it is presumed brokers leverage their level of relationship trust through peripheral routes as tactics to place research with their manager targets. These specific peripheral routes are discussed below, including how they act as pre-cursers to inaugurating central route processing of sell-side analyst research.

1.4 Peripheral routes

The following section outlines the peripheral routes to persuasion of interest in this study in more detail, highlighting the interdependent nature of how these routes persuade. Confidence is first defined and described, followed by source credibility and the tenets of this route from the perspective of brokers. Rapport follows with the underlying notion that rapport is dependent upon a relationship dyad. While a broker may be confident, or be credible, rapport can only exist as an expression of interpersonal interaction and communication. Lastly, social proof is described as well as its relation to norms in the investment industry.

1.4.1 Confidence

Confidence describes a person’s strength of belief about one’s own abilities to be successful in a task or judgment (Peterson and Pitz, 1988; Sniezek, 1992) ranging from certainty to doubt on a spectrum (Wesson and Pulford, 2005), as well as a sense of perceived authority from the onlooker (Cialdini, 1984), in this case, a manager. It is presumed that brokers and analysts will feel confident in their ability to influence a manager investment decision just as a manager will feel confident in their ability to invest successfully. For the purposes of this research, confidence as a persuader or influencer may be defined as the perceived confidence or expressed authoritative expertise of the broker (Peterson and Pitz, 1988). This is bolstered by their knowledge of specific investment opportunities (Pulford, Coleman, Buabang, and Krockow, 2018) where message recipients judge the reliability of the message based on the confidence through which the message is expressed (Thomas and McFadyen, 1995). This perceived confidence, then, acts to increase the likelihood of initially influencing a manager to receive a research report on an investment opportunity because they are seen to be authoritative and express themselves confidently (Cialdini, 1984; Petty and Wegener, 1999; Shanteau, 1992; Pulford, Coleman, Buabang, and Krockow 2018; Thomas and McFadyen, 1995).

The general confidence literature is filled with studies around the application of confidence to succeed at tasks, as well as in the development of measurement tools for context specific confidence (see Beattie et al., 2011; Mazzo et al., 2015; Garant et al., 1995; Shrauger and Schohn, 1995; Sander and Sanders, 2003; Vealey, 1986; Kleitman and Stankov, 2007; Stankov, Kleitman and Jackson, 2014 for summaries). As examples, a study by Shrauger and Schohn (1995) found that personality measures could help determine cognitive self-reported confidence for specific tasks (Shrauger and Schohn, 1995). Sander and Sanders (2003) found that confidence was a measure to predict academic achievement (Sander and Sanders, 2003). Vealey (1986) found that school athletes use confidence to maintain their self-stature in the face of opposition or during injury (Vealey, 1986); and finally, Kleitman and Stankov (2007) through their longitudinal study of first-year psychology university students, found that confidence helped predict drive for future life events (Kleitman and Stankov, 2007). Related research has used self-efficacy (Bandura, 1997) yet it is distinct from confidence in one major way: self-efficacy is context specific, so it only acts as a measure of confidence within strict parameters (Stankov, Kleitman and Jackson, 2014). In addition, the confidence research shows that having confident, positive thoughts helps in persuasiveness (Petty, Briñol and Tormala, 2002), as well as being perceived as an authority on the subject (Van Swol and Sniezek, 2005; Cialdini, 1984) which is perhaps most famously described in the Milgram studies on obedience (Milgram, 1974). In each of these studies, confidence is found to be integral to achievement in a task much the same way a broker seeks to achieve a securities sale to a manager. Confidence is also shown to be somewhat of a personal attribute, such as a broker feeling and being perceived as confident by a manager (Van Swol and Sniezek, 2005). This is supported in the sales literature where a study by Zunac, Kordos and Ivandija (2021) found that self-confidence positively impacted sales ability (Zunac, Kordos and

Ivandija, 2021). What is puzzling, however, is the lack of research specific to the investment industry and more specifically, the sell-side. In examining the overall confidence literature with application to the finance industry, some studies exist from the perspective of over-confidence, where confidence in a series of predictions is said to exceed the accuracy of results (Pulford and Coleman, 1996). This would more closely apply to managers making investment decisions that produce poor results rather than brokers using confidence to influence manager investment decisions. This notion, however, is supported by the investment literature where over-confidence was found to be a detrimental factor to sound investment decisions made by end investors (See Chen et al., 2007; Ahmad and Shah, 2020, Park et al., 2010), and that this could be due to sub-optimal information searches (Bukzar, 2003) such as investing without quality analyst research.

In summary, it is unclear why this particular peripheral route is the most under researched in the finance industry or more specifically, the investment banking industry from the sell-side perspective. It may be due to the lack of available measures for this context, or lack of access to research participants. There is no doubt, however, that given the existing research on the use of confidence in other industries on decision influence, it seems a necessary skill for brokers wishing to influence manager investment decisions. In one study by Wesson and Pulford (2009) for verbal measures of confidence, they found that confident expressions that were succinct positively impacted persuasiveness (Wesson and Pulford, 2009). This could be one way in which brokers utilize confidence to influence managers, by stating facts and figures in a confident manner at the outset of communications with managers in order to ultimately place research. It is the purpose of this study to examine just how confidence is utilized by brokers to influence manager decisions pre- and post-MiFID II.

1.4.2 Source credibility

Source credibility is the term used to describe the characteristics of a message that influences the acceptance of that message by a recipient in times of decision uncertainty (Hovland et al., 1953). People tend seek out credible information to learn, gain support, feel empowered, or gain confidence in making a decision. However, information from different sources can also increase uncertainty or create dissonance in making a decision (Rogers, 1995). The impact of information on decision making, then, depends upon the source of the information itself. In this sense, the source of a message can impact and alter attitudes and decisions (Chaiken and Maheswaran, 1994). This is because if the source has merit and is relevant to the message, it can serve as a persuasive argument to accept the information and make a decision accordingly (Petty and Briñol, 2008).

Like other peripheral cues to assist in decision, source credibility can help the decision-making process during times of uncertainty as well as warrant how much cognitive effort is given to processing information. Previous research into source credibility has examined its effects on processing information as part of a decision (Pornpitakpan, 2004; Chaiken and Maheswaran, 1994; Lirtzman and Shuv-Ami, 1986; Petty et al., 1981; Hovland et al., 1953) which shows higher credibility sources have a larger impact on message recipients' decision-making than low credibility sources (Clarke and Evans, 2014; Hovland et al., 1953; Tormala, Briñol and Petty, 2006; Petty and Briñol, 2009). Indeed, Chaiken and Maheswaran (1994) found that under low elaboration conditions, source credibility acted as a heuristic or peripheral cue to making a decision where message recipients accepted information without too much thought. Under high elaboration conditions, such as with a sell-side research report, they found that highly credible sources made it more likely to spend time thinking about the information. Indeed, other studies found similar outcomes in that source credibility positively influenced the perception of usefulness of the data to make a decision (Bhattacherjee and Sanford, 2006; Sussman and Siegel, 2003). This fits with the dual process model approach to persuasion in this research whereby brokers invoke peripheral persuasion tactics involving source credibility to place sell-side research for central processing to influence an investment decision (Petty and Cacioppo, 1984). Tormala, Briñol, and Petty (2006), for example, found that people were more likely to purchase a laundry detergent when its benefits came from a consumer advocacy group (high credibility source), rather than the detergent manufacturer (low credibility source). Similarly, source credibility has been cited as an influence in consumer brand choice decisions (Amos, Holmes and Strutton, 2008), on remembering advertisements (Forehand and Perkins, 2005), in online buying decisions (Cheung, Luo, Sia and Chen, 2009; Hu, Liu and Zhang, 2008), acceptance of news article content (Graefe, Haim, Haarmann and Brosius, 2018), and financial reporting (Rogers and Stocken, 2005). Source credibility is also a well-known antecedent in financial literature for effectiveness in influencing a decision (Mercer 2004; Mercer 2005; Rogers and Stocken, 2005), including accounting auditor judgments (Beaulieu, 2001; Hirst, 1994), audit decisions (DeZoort et al., 2003) and lender deliberations (Beaulieu and Rosman, 2003). Little research exists, however, in the investment banking industry. Indeed, very little research exists outside of lay investor experiments such as Schwarzkopf (2007) who found that source credibility mattered when reviewing financial reports before making investment decisions (Schwarzkopf, 2007).

Fogg and Tseng (1999) identified four types of source credibility, which shows it as a multi-dimensional construct. These are perceived credibility, reputed credibility, surface credibility and experienced credibility (Fogg and Tseng, 1999). Perceived credibility comes from the perceiver, such as a stereotype. A used car sales person may be perceived as dishonest for example. Reputable credibility arises from labels. A professor, for example, holds a PhD and may be considered credible simply from the label. Surface credibility is based upon initial peripheral route processing such as ones' first impression, and experience credibility is based on an individuals' first-hand experience over time. Though source credibility is multi-dimensional, each of these types of credibility has two-main source components or facets that place source credibility into one large group. These are perceived expertise and trustworthiness (Self, 1996; Shan, 2016; Li, 2012; Petty and Wegener, 1999; Priester and Petty, 2003; Fogg and Tseng, 1999). Perceived expertise implies that information received from experts is more authentic for a greater impact on decision making (López and Sicilian, 2014), which is closely related to the level of broker confidence, authority, or expertise explained in the preceding section. It also relates to the level of competence a broker may have (Moin, Devlin, and Mckechnie, 2017). Trustworthiness may be defined as how much confidence a manager has that the broker and their analyst research reports are "providing information in an objective and honest manner" (Ohanian, 1990:47). One thing to note about trustworthiness as it pertains to source credibility in this research is analyst incentives. Research shows that analysts influence investment decisions through company coverage in their reports which may indicate financial incentives from the companies they cover (Mullainathan and Shleifer, 2005). Analyst reputation, then, may be a factor in the overall perceived credibility of brokers and their sell-side research by managers (Mercer, 2004).

In this study, brokers utilize source credibility through perceived industry expertise, a history of results, their experiences with managers, and analyst sell-side research as both expertise and trust factors. For managers, the combination of broker source credibility tactics act to reduce decision uncertainty (Belkin, 1978, Buckland, 1991), serving as a filter for believability before assimilating information into the investment decision process (Wathen and Burkell, 2002; Petty and Briñol, 2008). A manager is therefore more likely to accept research if they perceive the source as competent (authoritative or perceived expertise) and from a trustworthy source deemed credible than from a broker who has neither of these attributes (Evans and Clark, 2012; Clark and Evans, 2014; Priester and Petty, 1995; Priester and Petty, 2003).

1.4.3 Rapport

The concept of rapport refers to the positive dyadic interpersonal interaction between two actors (Nelson, Grahe and Ramseyer, 2016) and in this case, between brokers and managers. This means rapport is a construct that is dependent upon two people interacting with verbal and non-verbal behaviours for it to exist. As a tool for effective persuasion it differs from confidence, credibility, and social proof as each of these could be considered personal attributes whereas rapport relies on the dyad. Some researchers have described rapport as a deep relaxation between instructor and subject (Sheehan, Green and Treusdale, 1992); while others have defined rapport as a comfortable feeling when around others one intuitively likes (Hollman and Kleiner, 1997). It is considered useful in business (Hollman and Kleiner, 1997) and is sought out because it is useful to help reach an objective or goal (LaFrance, 1990). Indeed, though rapport does not necessarily provide long lasting positive feelings, it is inherently a first impression tool for initial interpersonal interactions for developing new relationships (Grahe and Bernieri, 1999; Acosta and Ward, 2011), and it is often sustained to help accomplish various ongoing means (Fiksdal, 1988; LaFrance, 1990). The future resultant relationship, while not part of this study, could be directly connected to initial rapport established between brokers and managers.

Tickle-Degnen and Rosenthal (1990) identified rapport as an initial positive chemistry between people, asserting that clinicians attempt to develop rapport with their patients for a positive experience; that salespeople aim to use it in order to make a sale; and people who have just met use it to predict the future outcome of a possible new relationship (Tickle-Degnen and Rosenthal, 1990). The study of rapport has appeared in a number of contexts including hypnotists trying to use it to influence compliance; teachers and trainers wanting to maintain it, and those in the public eye who invoke it to gain support (LaFrance, 1990). Many studies exist across education for rapport between teachers and pupils (Saidia, 1990); between therapists or clinicians and their patients (Harrigan and Rosenthal, 1983); and in business between buyers and sellers (Gremler and Gwinner, 2000); highlighting its usefulness in interpersonal influence. According to Cappella (1990), rapport building is a central construct to help explain the development of new relationships. Rapport in this sense is considered a peripheral route to persuasion because it is used predominantly to spark chemistry between brokers and managers for new business, not for long lasting relationships.

Further, Tickle-Degnen and Rosenthal (1990) posit rapport as a combination of three essential components. These are mutual attentiveness, positivity, and coordination. Mutual attentiveness refers to the initial chemistry felt between two actors that create a focused interaction. This first step is essential in establishing interest by both parties to continue communication with each other. Positivity refers to mutual friendliness between both actors which, in addition to mutual attentiveness, provides a good feeling about the interaction taking place (Tickle-Degnen and Rosenthal 1990). It is important to outline that both attentiveness and positivity exist simultaneously, because it is possible that two friends can engage in negative discussion which may not be considered rapport building but instead, argumentative behaviour. The third component coordination refers to how "in sync" both actors appear to be during their interpersonal interaction which describes how coordinated the dyad is in their communication (Tickle-Degnen and Rosenthal, 1990: 286).

Interestingly, most of the research on rapport building is focused on non-verbal rather than verbal correlates. Non-verbal behaviours such as smiling, leaning forward, nodding, body position, posture and mirroring are all aspects of rapport that feed into the non-verbal measures of rapport. This is pertinent information and may provide insight into how brokers first meet with managers face to face during office visits or social encounters. However, research examining the importance of non-verbal versus verbal correlates of rapport have mixed conclusions (see Archer and Akert, 1977; Gifford and Hine, 1994; Mehrabian and Ferris, 1967; Berry et al., 1997 for summaries). While Tickle-Degnen and Rosenthal (1990) established rapport as part of non-verbal behaviours, they did not state it solely as a non-verbal measure. Berry et al., (1997) concluded verbal communication conveyed as much information as non-verbal behaviours as did Fiksdal (1988) in her study of verbal rapport during interviews. In addition, Bronstein et al., (2012) found that verbal rapport contributes to successful negotiation (Bronstein et al., 2012; see Drolet and Morris, 2000; Whichman, 1970; Clark, Drew, and Pinch, 2003 for related studies). The use of emotive or positive words, agreement, reinforcement words and the present tense, for example, communicated the attention, positivity and coordination needed for building rapport (Clark, Drew, and Pinch, 2003). Additionally, items such as laughter during conversation or digression from the initial intended conversation are also measures in establishing verbal rapport (Belli et al., 2001, Belli et al., 2013; Garbarski, Schaeffer and Dykema, 2016). Indeed, when two actors are not able to see each other, such as with phone calls, text messages, email, and other modern communication mediums (Croson, 1999), the non-verbal channel plays a minor role in establishing rapport compared to the verbal channel (Bronstein et al., 2012; Bernieri et al., 1996; Puccinelli, Tickle-Degnen and Rosenthal, 2003; Garbarski, Schaeffer and Dykema, 2016). Rapport, then, is influenced by both verbal dialogue and non-verbal behavioural streams, depending on the context of the interaction.

In the context of this study, how a broker establishes rapport with managers is of particular interest and exists across a combination of both verbal and non-verbal means, such as calls, emails, face-to-face visits, or meetings. It is important to note that rapport is not the same as friendship, but it is associated with relationships. Some research outlines rapport as something that can be broken down into rapport building versus rapport maintaining (Tickle-Degnen and Rosenthal, 1990). Rapport maintenance involves a shift in behaviour toward friendships where interactions become more relaxed, predictable, and less concerned about gaining persuasive favour. Indeed, research shows that friendships are not necessarily needed to target some of the best customers (Dalsace and Jap, 2017) but rapport can be still utilized for ongoing means (Fiksdal, 1988; LaFrance, 1990). Financial markets are a good example of this where research has even suggested discourses of friendship can have a negative effect on successes with customers (Gompers, Mukharlyamov and Xuan, 2014; Colgate and Danaher, 2000; Palmatier, Scheer, Houston, Evans and Gopalakrishna, 2007). Friendliness, then, for this research, is more about building initial rapport to prime the recipient for a persuasive message, establishing a dialogue with managers for a future relationship that uses ongoing rapport and past experiences than as a key influencer to make a decision. In this sense, it is a door opener (Palmatier, Scheer, Houston, Evans and Gopalakrishna, 2007). A broker must therefore establish rapport in order to appeal to a manager who values source credibility (such as a strong history of past results) over just friendship. This is not to say friendships are not helpful in financial markets, quite the opposite, but as the complexity of the product or service increases, so does inherent risk. As a result, high stakes transactions require data (analyst research) in addition to rapport for brokers to be successful in persuading managers to invest with them. Should managers become long term customers, friendship and rapport maintenance may also influence their decisions (Hollebeek and Brodie, 2009; Eisingerich and Bell, 2007; Bell et al, 2005; Lovelock, 1983). While it is not part of this study, future research could investigate the impact of close friendships as an influence on long term clients' investment decisions.

1.4.4 Social proof

The term social proof was first coined by Social Psychologist Robert Cialdini to describe the phenomenon of informational social influence where people copy others' decisions in times of uncertainty, not knowing which decision or behaviour is right (Cialdini, 1984; Rao, Greve and Davis, 2001). The behaviour of others acts like a guide to help provide clarity (Yakimin and Rafeah, 2017). Social proof, then, has a greater effect when one's own certainty in how to choose or behave is low relative to others because others' behaviour act as a cue on what to think, feel or do. In this way, a person is more likely to act if they see others doing it (Yang and Kraut, 2017). The influence portion happens when a person accepts the social information as proof of it being the right thing to do or choose (Wooten and Reed, 1998). In this sense, social proof is a type of conformity (Aronson, Wilson. and Akert, 2005). According to Cialdini (1984), decisions based on social proof may be correct but may also be wrong (Cialdini, 1984; Cialdini, 1993; Cialdini and Goldstein, 2004). This is because decisions based on social proof may be founded on very little information. As an example, a parent may say to a child "If everyone was jumping off a bridge does that mean you'd do it too?" to point out that sometimes, following others is not the right thing to do. The same could be said for managers in the investment industry, just because many analysts are following a company does not mean it is a better company than another to invest in. Research does show that elements of social proof have a place in the investment industry, with managers being interested in brokerage houses with many analysts covering a company (Rao, Greve and Davis, 2001); or consider many analysts covering a company adds credibility to information managers already have (Doukas, Kim and Pantzalis, 2008.) MiFID II may unintentionally reduce the amount of social proof brokers can leverage if brokerage houses reduce the number of analysts on their research teams from not being able to justify the expense. This is because MiFID II prevents brokers from funding their analysts research using soft-dollars paid on the back end in trading commissions.

It is important to point out that influence through social proof is voluntary and should not be confused with normative social influence or herd behaviour. Normative social influence happens when a person changes how they think, feel, or behave to conform to a social norm in order to be accepted or liked. Norms are implicit shared rules that form the accepted behaviour of a group (Cialdini and Goldstein, 2004). It does not mean that person accepts the norm but conforms nonetheless to fit in (Deutsche and Gerard, 1955). Herd behaviour, on the other hand, is following the crowd regardless of direction or whether the follower believes it is correct. It is interesting that MiFID II could be met with some significant resistance as it pertains to norms. While using soft-dollars is in part due to herd behaviour, such as new industry actors following the practice because everyone else is, it is undoubtedly a norm, dating back to the 1950's (Blume, 1993). Not only will social proof be impacted by MiFID II regulatory change, but existing norms that are curtailed may be replaced with new norms which may actually be a type of conformity.

Many studies exist in the study of social proof and its role as a persuader. People need proof before making a decision and without spending an inordinate amount of time researching (Cialdini, 1993), they look for decision confidence based on what others say and do (Yakimin and Rafeah, 2017). As with famous studies on authority, the most famous of these social influence studies include the Milgram studies (Nodder, 2013). During these experiments, participants were told that they would give potentially lethal electric shocks to another person and a greater number of participants carried out the task if told by an authoritative figure. Similarly, Stanley Milgram studied the effects of group social influence. One particular study had a person look up into the sky and a measure was taken of how many more people copied. According to the study, about 40% of people also looked up as they walked. With the help of two additional confederates, that number rose to 60% and with four confederates, upwards of 80% of people walking by also looked up, showcasing the impact of social proof (Nodder, 2013).

Additional studies exist in the use of social proof to persuade across a variety of contexts, including consumer reviews for legitimizing the purchase of a particular online product (Amblee and Bui, 2011); soliciting personal loans (Yang and Kraut, 2017); increasing online security sensitivity (Das, Kramer, Dabbish and Hong, 2014); reusing rather than getting fresh hotel towels (Martin, 2008); engaging scientists in communication (Hu, Li, Zhang and Zhu, 2017); choosing which radio format to follow (Greve, 1995); curriculum change in liberal arts universities (Kraatz, 1998); social media shopping (Yakimin and Rafeah, 2017); and the promotion of healthy food choices (Salmon, De Vet, Adriaanse, Fennis, Veltkamp and De Ridder, 2015).

In the context of this study, social proof may be influenced by the ongoing attitudes and interactions between brokers and managers. Indeed, research shows that social proof may be influenced by a great many factors including the prevailing industry norms (Deutshe and Gerard, 1955); compliance and internalization of the information available (Kelman, 1958); as well as coercive or expert power or authority (MacCoun, 2012). A broker, for example, that is perceived as an industry leader, with a history of successful transactions, with credible analysts and analyst research, and has worked with many managers, is likely to have greater social proof and be much more successful in persuading new managers to invest using their services than a broker with fewer of these persuasive tools. Further, social proof is impacted by the onlooker. A manager's decision to be influenced by a broker's social proof may also depend on their pre-existing attitude, openness to change, industry knowledge and certainty (Visser, Bizer and Krosnick, 2006).

In the limited research available in a financial context, research does show that social proof is a persuasive tool. Though this study focuses on institutional brokers and managers, on a lay investor basis, Brunnermeier (2001) found individual investors exhibit herd behaviour in the buying and selling of stock bubbles due to information asymmetry between private institutions and the public (Brunnermeier, 2001). While this is not explicitly social proof, it is related behaviour of making a decision during uncertainly. Similarly, Hoffmann and Broekhuizen (2009) found that social proof influenced investment decisions but not nearly as much as industry knowledge did which could be deemed as confidence (Hoffmann and Broekhuizen, 2009). More specifically in the investment industry, during the 1990s, stock forecasts by analysts from large brokerage houses gained prominence among mangers and investors (Doukas, Kim and Pantzalis, 2008). The research showed that managers tend to follow brokerage houses that have the greatest investment information from many analysts covering a firm (Rao, Greve and Davis, 2001); and that even excessive analyst coverage may add credibility to information managers already have from other sources which in turn influences their investment decision (Doukas, Kim and Pantzalis, 2008; Rao, Greve and Davis, 2001). In this sense, an analyst and more importantly, analyst research is a highly visible component of investment decisions and knowing analysts are covering a firm impacts manager interest and possibly an investment decision following consumption of adequate research. It will be interesting to find out how actively brokers use this method pre- and post-MiFID II. Further, it underlines the importance of investment research as a key influencer in manager investment decisions.

Now that peripheral routes have been examined in detail it is time to look at the central route and how this route influences decisions. As mentioned earlier, the investment industry requires specialist knowledge with communication between brokers and managers inviting higher elaboration of relevant information for vested managers to make a decision (Lavine, 2009). While knowledge asymmetry is lower in institutional investing compared to lay investors, managers are still in need of detailed financial information outside of public disclosures to assist their decision process. The following section examines the literature around central route processing and why this is necessary to influence manager decisions.

1.5 Central route

Discussed thus far as part of dual process models, peripheral routes to persuasion including confidence, source credibility, rapport and social proof have been shown as decision influencers. Peripheral routes that combine increase the level of persuasion on that decision. Confidence and source credibility, for example, can combine to increase the persuasive effect on the message recipient by building trust within the dyad. Yet to be discussed is the central route, and in particular, how the central route persuades. The following section examines the body of literature surrounding central route persuasion and how greater information provided to interested message recipients impacts decisions (Van Swol and Sniezek, 2005, Pulford, Coleman, Buabang, and Krockow 2018). For the purposes of this research, it is proposed that sell-side analyst research serves as the primary central route persuasive method employed by brokers to influence manager investment decisions. It is important, therefore, to understand just how this route works as a persuasive tool.

As described at the beginning of this section, the central route to persuasion is more analytical, requiring greater attention, information, or data scrutiny for purposeful reasoning. The extant literature on central route persuasion shows that added elaboration of information to a message recipient increases persuasive effect from the message giver (Kahneman and Tversky, 1979; Kahneman 2003; Evans and Stanovich, 2013; Evans, 2008). It is often found as a method in advertising and marketing (Petty, Cacioppo, and Schuman, 1983), in healthcare (Angst and Agarwal, 2009), in e-Commerce (Chen and Lee, 2008; Sher and Lee, 2009), in politics (Mosler, 2006) and in the media (Flynn et al., 2011). The finance literature shows that added information or financial literacy improves end investor decision making ability (Ahmad and Shah, 2020). Research is limited, however, in the use of central route persuasion in the investment banking industry. For this study, and as a persuasive method for brokers, disseminating research lends managers the ability to access detailed financial information otherwise unknown. This information allows managers to arrive at a reasoned decision (Kruglanski and Van Lang, 2012).

As part of the central route to persuasion, different factors contribute to its usefulness and success as a persuasive method. These are namely motivation and cognitive ability (Morris, Singh, and Woo, 2005). Motivation refers to the level of interest a message recipient has in the presented information. Arguably, if a manager is not interested in the information being presented, they are less likely to devote the necessary cognitive time to processes research, meaning research may have little impact on their investment decision. A use-case may be a manager focused on investment trusts being solicited by a broker in the real estate sector. In this scenario, a manager will not be motivated to digest, allocate mental capacity, or even agree to receive the research from the broker because they are not motivated or interested in the material. Managers, however, are charged with purchasing shares and are always looking for investment opportunities on behalf of their investor clients. It is highly unlikely, therefore, that a manager whose focus is the same sector or niche as the broker will be unmotivated to process the information presented by phone call or be open to research reports that inform their decision. The second aspect is cognitive ability. Dual process models predict that research reports are less impactful on lay investors than institutional investors based on skill and ability to understand complex financial information. A manager, then, who has specialist knowledge is likely to possess the requisite cognitive ability to understand industry terms, financial models, and complex financial information contained in research reports to make an informed decision.

One of the key benefits to brokers in using the central route is long term influence over managers for future engagements. Research shows that central route persuasion has a lasting effect on attitude change than the more emotive peripheral route (McNeil and Stoltenberg, 1989). This means that research is more likely to influence a final manager decision than initial interest the broker gained from a phone call or email communication. Though not part of this study, it would be interesting for future research to investigate whether research that elicits and pro-investment decision has a compounding positive effect on broker-manager relationships and relationship influence in the investment decision process. It is conceivable, for example, that if a broker provides quality, relevant, analyst research that results in successful investments, that manager is more likely to take calls, meet, or receive research from that same broker for future opportunities.

Now that the central route and the role research as that central route has been examined, it is important to note that for the purposes of this study, research in its entirety is being discussed rather than individual tenets within it for persuasive means. This means that while brokers need to know their audience to prevent boomerang effects or resistance to the message (Griffin, 2012), it is still the research as a whole that persuades manager decisions. This is due to several factors. Most importantly, the investment industry is large with many different specialisations within it. Brokers who focus on investment trusts, for example, have a different approach to what financial information to focus on in an initial call with a manager compared to brokers who focus on real estate or fintech companies. For them, performance over time as opposed to bi-annual results announcements could be a better positioning tactic with their target managers than managers who do not focus on investment trusts. Similarly, managers who focus their funds into chemical investments will be less interested in speaking with a broker or viewing analyst research if their expertise is in healthcare. Because industry specialisation factors into the research content it is difficult to identify which aspects are persuasive overall.

Time or timing is also a factor. Research shows that when announcements are made, the timing of the announcement can impact investment decisions. In a study conducted by DellaVigna and Pollet (2009) examining research information releases, they found that news flow on a Friday had a more sudden impact on investor activity than those provided over a weekend (DellaVigna and Pollet, 2009; DellaVigna and Gentzkow, 2010). This kind of timing likely applies to bi-annual earnings announcements where research will focus more heavily on these results than when a new IPO is announced.

Analyst position in the industry also impacts research as a persuader. The literature shows that managers pique interest when they see many analysts following a company (Rao, Greve, and Davis, 2001) which is seconded by analyst industry position or if they are at a prominent brokerage house which is a function of source credibility (DellaVigna and Gentzkow, 2010). The content of the research in this sense may not be as important at face value as the source from which is comes.

Lastly, this study examines the methods of persuasion used by brokers to influence manager decisions rather than an examination of the individual tenets of how analysts persuade through research. While brokers are industry professionals with specialist knowledge, they do not spend time writing research, analysts do. Brokers place research with managers as part of their sales approach and may not be as invested in the individual intricacies of a report when compared to the overall impact it has on eliciting a pro-decision resultant from its placement. It may be that future research could further investigate what specific financial information within a research report is more persuasive than others, but specific industry focus would have to be taken into account.

This is not to say the contents of research are not useful. The accounting research shows that optimistic statements for buy recommendations or concise statements about firm value can have a persuasive effect to end investors (Asquith et al., 2005; Kadous et al., 2005). More specifically, Svetlova (2018) shows that specific financial models can be used as opinion proclaimers where the choice of financial model can be used to support the analyst view of the stock in their research reports (Svetlova, 2018). In both instances, however, regardless of what financial disclosures or financial model is constructed or used as part of the research, research is used more generally to tell a story alongside its buy, sell, or hold recommendation. Indeed, as outlined by Svetlova (2018), analysts use multiple tools in the formation of their research including industry news, attending meetings, phone calls, etc., as well as the actual analysis of company financial information in order to create a valuation report on what they believe the stock is worth (Svetlova, 2018; Svetlova, 2012). This is the case regardless of industry focus or model used in that valuation. Research in its entirety, then, acts as the central route to persuade managers with brokers leveraging their analysts' research to sway interested managers to make an investment decision.

In summarising, this chapter has examined several theories of persuasion including the Persuasion Knowledge Model (PKM), Narrative Paradigm Theory, Conviction Narrative Theory (CNT), and Dual Process models. The PKM provides additional factors outside of economic theory in decision-influence such as interpersonal interactions when one agent attempts to persuade another (Friestad and

Wright, 1994). The PKM, however, is not an individual theory but a group of theories to describe the multi-faceted nature of two-way communication between agents rather than the persuasion of one group by another. Narrative Paradigm is interesting and can be seen as a facet of dual process models such as the use of stories (Fisher, 1985) as a peripheral tactic to help brokers place research with managers. CNT also relates to the use of stories or narrative but is more consistent with the process of building an in internal narrative to feel confident in a decision (Tuckett and Nokolic, 2017) similar to aligning cognitive dissonance than as a persuasive tactic. As such, CNT is more appropriate for a study from the perspective of buy-side asset managers.

Dual process models serve as the most apt and chosen theoretical framework to understand persuasion methods used by brokers in the investment industry as they factor in the emotive and cognitive processes involved in making decisions (Petty and Cacioppo, 1986, Evans and Stanovich, 2013) whereby story relevance and sufficient information is needed to influence decisions (Herkovitz and Crystal, 2010). In addition to their usefulness in explaining persuasion in the investment industry, dual process models have been a longstanding focus of persuasion research since the 1970s (Kahneman and Tversky, 1979; Petty and Cacioppo, 1984, 1986; Chaiken, 1987; Wason and Evans 1975; Stanovich and Toplak 2012; Bago and Neys 2017; Kahneman 2011; Cacioppo, Cacioppo, and Petty 2018). Indeed, dual process models are being used in contemporary research across a variety of contexts including influencing belief or rejection of fake news (Cheng et al., 2021), electronic word of mouth messaging (Moradi and Zighagh, 2022), the success of online petitions (Chen et al., 2019), the effectiveness of narrative in messaging for crowdfunding (Lee et al., 2019), online shopping (Vo and Wu, 2022; Xu, Roy, and Niculescu, 2022), product information influence on purchase intent (Chen, Chen, and Tian, 2022), review credibility for purchase decisions (Wang et al., 2022), trust in public health sources (Kikut, 2022), and effective support for environmental and sustainability appeals (Chung and Braun, 2022; Rakib, Chang, and Jones, 2022). In addition, recent sociological and healthcare research has borrowed from dual process models to understand phenomena using both quantitative and qualitative research methods (Leschziner, 2019; Chen et al., 2019; Kikut, 2022).

Thinking about peripheral routes to persuasion in this study, the peripheral routes of confidence, source credibility, rapport, and social proof are of particular interest for this study. They each have a history of use as persuaders in other industries yet remain under researched in the investment industry. Limited research was found about the use social proof and credibility in the investment industry whereby managers used the decision shortcut of many analysts following a company to know which companies to also be interested in (Rao, Greve and Davis, 2001; Doukas, Kim and Pantzalis, 2008).

Interestingly, the cost of large analyst teams is buried in the soft-dollar norm, something MiFID II stops. MiFID II may therefore reduce the number of analysts following companies overall. In terms of the central route as applied to the investment industry, analyst research serves as the detailed financial information managers need to make investment decisions. MiFID II prevents brokers from providing research for free which challenges their use of research as a persuader. As such, brokers may look at alternative ways to place research or persuade and feel negatively about MiFID II regulation impact on their daily lives. With this in mind, the following section outlines the main research questions and sub-questions followed by chapter two. Chapter two introduces MiFID II, discusses the delivery vehicle through which research is provided to managers, and why MiFID II brings with it fears from industry actors impacted by the regulation change.

1.6 Research questions

This study is designed to investigate the methods of persuasion used by brokers to influence managers pre- and post-MiFID II regulation change in the investment industry. Specifically, this study is framed by the following research questions as well as supporting sub-questions:

1. How have persuasion tactics been utilized by brokers to influence manager investment decisions in the investment industry?

As described earlier in the chapter, dual process models of persuasion provide the most apt framework to understand persuasion tactics used by brokers to influence manager investment decisions. Further, the chapter shows that both peripheral and central routes to persuasion co-exist and work in tandem in the investment industry. On the one hand, personal attributes and peripheral tactics help build relationships and prime managers; and on the other, hard data that solidifies the decision. In support of research question one this study therefore also examines how brokers use confidence, source credibility, rapport, and social proof as well as analyst research as influencers on manager investment decisions. These can be written as sub-questions:

a. In what ways are peripheral routes to persuasion (in particular, confidence, source credibility, rapport, and social proof) used to prime managers for decisions through sell-side research?
b. How does sell-side research act as the key influencer in manager investment decisions?

2. How does MiFID II challenge the status quo of the methods of persuasion used by brokers toward managers in the investment industry?

As discussed in chapter two, MiFID II represents a massive change in the way brokers, analysts, and managers communicate and effectively stops the soft-dollar practice. In addition to the core question to understand how MiFID II impacts persuasion methods, part of research question two includes finding out the ways existing social norms and practices such as soft-dollars are being forced to change under the regulation. It is expected that industry actors were apprehensive about this body of legislature impacting their industry, their relationships, and daily activities. In support of research question two, then, questions arise about how the fears surrounding MiFID II have been legitimized by the opinions and experiences of study participants. These can be written as sub-questions:

a. In what ways are the existing social norms and practices of the investment industry being forced to change as a result of MiFID II regulation change?

b. How are MiFID II fears legitimized by the opinions and experiences of brokers due to the history of soft-dollar usage as a persuasion tactic to influence managers?

3. In what ways have methods of persuasion used by brokers toward managers been impacted by the inauguration of MiFID II regulation change?

This third and final question follows naturally to understand how MiFID II has actually impacted or changed the way brokers persuade following its inauguration. How have the use of confidence, source credibility, rapport, and social proof changed now that communications are monitored and recorded under MiFID II, for example. Similarly, in the post MiFID II landscape, what practices have begun to replace soft-dollar usage to continue using research to influence manager decisions. These can be written as sub-questions:

a. How has MiFID II facilitated changes in the use of confidence, source credibility, rapport, and social proof through common channels of communication between brokers and managers?
b. What practices are starting to replace soft-dollar arrangements as the vehicle for brokers to provide sell-side research as a key influencer for manager investment decisions?

Chapter Two: MiFID II

The Markets in Financial Instruments Directive II (MiFID II) is a body of regulatory change legislation that impacts financial markets. It is an evolution of MiFID (hereafter MiFID I) and is most notably in response to the financial crash of 2008 (Haslem, 2011; Prorokowski, 2015). It is important to note that while MiFID II is specific to the investment industry, it is part of a wider set of financial services regulation since the financial crisis that have sought to increase transparency and protection for investors and/or consumers. The Retail Distribution Review that came into force in the UK in 2012, for example, impacts industry practice and addresses access to financial advice (Ring, 2016). Similarly, the Single Supervisory Mechanism (SSM) provided the European Central Bank with authority to monitor and regulate Eurozone banks to build confidence in financial markets and avoid future bailouts (Wymeersch, 2014, Voland and Wolfers, 2014; Eur-lex, 2013). Indeed, the abolition of the Financial Services Authority (FSA) and creation of the Financial Conduct Authority (FCA) to handle consumer protection due to the financial crash of 2008 is exactly the kind of financial reform that has targeted closer financial market supervision, and provide increased transparency to financial services consumers (FCA, 2016; Ferran, 2015).

MiFID II was first penned in 2001 and passed as law in 2014. Its original implementation date of June 2017 was delayed until January 2018 (CFA, 2017; CFA, 2019). As mentioned in the introduction, MiFID II was not designed overnight and if viewed as an evolution of MiFID I, spans 16-years from conception to implementation. This is much longer than many industries may have to become compliant on new conduct rules. With it, MiFID II introduced expected and unexpected consequences to the investment industry. Chief of these, from the perspective of this study, is the way MiFID II stops the practice of soft-dollars. This chapter therefore first looks at the rise of soft-dollar use, its pervasiveness in the investment industry as a normative practice, and then examines soft-dollar reform. MiFID II is then discussed with a review of the regulatory landscape leading up to its proposal and inauguration. As part of this review, soft-dollars are shown to have been under scrutiny from regulatory bodies and academics due to misuse of the practice. This review includes a series of industry changes addressing non-transparent pricing, conflicts of interest, and fund performance which culminated in the MiFID II regulation changes. MiFID II intentions are then summarized most notably the stop to soft-dollar usage to increase transparency to end investors, along with the expected and unexpected consequences in relation to peripheral and central routes to persuasion. Potential fears are included in this section from the perspective of the sell-side.

2.1 Soft-dollar arrangements

The term 'soft-dollars' refers to the bundling of services whereby managers could access sell-side research without the upfront cost. While soft-dollars have been used by brokers for more than research including salaries, office rent, phone bills, computer hardware, and most notably, entertainment, the predominant focus of soft-dollars was to provide managers with necessary research in exchange for a transaction (Livne and Trueman, 2002). By using soft-dollars to disseminate research to managers, brokers would elicit a pro-investment decision more easily. The term soft-dollars is not new. It's earliest use dates back to the 1950s (Blume, 1993) and became a popular investment industry practice by the 1980's to describe subsidiaries received by a manager from brokers that were meant to help managers keep their fiduciary duty to their investor clients (Haslem, 2011). Indeed, managers are legally required to seek the best transaction execution on behalf of their investor clients (Erzurumlu and Kotomin, 2016). Soft-dollars, therefore, allowed managers to seek out transactions that they would otherwise not have enough information about whilst at the same time not worrying that the transaction was not best transaction execution. Because these services were not paid for with hard money, they are considered 'soft' and work by brokers providing managers with 'credits' which are paid back in commissions following a transaction (Haslem, 2011). This suits the managers because it shows lower overhead costs and thus higher profit margins, something they could use to persuade investors to use their services. More importantly, however, soft-dollars as access to analyst research highlights its importance as a persuasive method (Taha and Petrocelli, 2014; Blume, 1993). In exchange for this research, managers agreed to use the broker for the transaction at a premium commission rate, covering the cost of the research on the back end of the transaction (Lins, 2003; Horan and Johnsen, 2008; Schwartz and Steil, 2002).

The popularity of soft-dollars might be rooted in reducing knowledge asymmetry (Arjaliès et al., 2017) or to avoid lengthy exposure to sensitive information that could impact a trade (Arjaliès et al., 2017; Carrie, 2008), but regardless of why they became so popular, the use of soft-dollars became an industry norm, with the majority of transactions involving some level of bundled soft-dollar arrangement (Erzurumlu and Kotomin 2016; Wirth 1997; Livingston and O'Neal, 1996). This norm reflects the bundling of services more than the actual characteristics of trade transactions (Goldstein et al., 2009). Interestingly, soft-dollars were considered to be so entrenched in the investment industry that following the prohibition of fixed commission rates in 1975, the Securities and Exchange Commission (SEC) passed the 'Safe-Harbour' Act, protecting the practice of soft-dollar arrangements between brokers and managers. Indeed, the SEC allowed soft-dollar use outside of best execution so long as the services received aided the manager in their decision making (Securities and Exchange Commission, 1986; Myers, 1987). In short, safe harbour protected managers from would-be breaches in fiduciary duty to their clients where a best execution was required (Haslem,2011). MiFID II supersedes the safe-harbour act, but it is worthy to note that the safe harbour act contributed to the need for soft-dollar reform by allowing commissions to be negotiated outside the best execution. This created a lack of pricing transparency where costs are passed to the end investor. In addition, managers might be enticed to use brokers who provided more than just research as part of their soft-dollar arrangement at the expense of fund performance (Kaswell, Rosenblat, and Sherman 2006; Lambert, Leuz, and Verrecchia 2012).

2.2 Soft-dollars and persuasive routes

Before looking at the way soft-dollar use or misuse has attracted reform from regulatory bodies, it is important to put them in context as persuasion. As mentioned above, the predominate use of soft-dollars was to place sell-side research to facilitate informed investment decisions (Livne and Trueman, 2002). From this perspective, it is easy to categorise soft-dollars as a strictly central route to persuasion. Rapport or relationships between brokers and managers under soft-dollars, however, should not be ignored. In a study conducted by the SEC in 1998, they found that a significant number of brokers and managers engaged in non-research soft-dollar arrangements which included entertainment (Securities and Exchange Commission, 1998). Non-research activities using soft-dollars is a function of a social relationship and therefore a peripheral rather than central route to persuasion. The relationship literature shows that closer relationships have greater impact on behaviour than ambivalent ones (Kanate, 2010; Uchino et al., 2004), meaning it is in the interest of brokers to know and be friendly with managers. This is explained well by Arjaliès et al. (2017) in their study of how investment management is shaped from the perspective of buy-side managers. They found that managers perceived gifts such as fine wine or ballet tickets from brokers not as inducements to trade but as attempts to build relationships with them. The fact that managers had such an expectation showcases soft-dollars as an industry norm (Arjaliès et al., 2017). Soft-dollars, therefore, straddle both peripheral and central rotes to persuasion and any reform carries with it an impact to industry relationships as well as research delivery. On the one hand, soft-dollars as a peripheral method act as a precursor activity to build rapport, relationships and 'buy a way in' to get to know managers. This also serves a purpose in tailoring research to managers they know well. On the other hand, soft-dollars as a central method is the delivery vehicle and accepted 'cost free' industry norm to provide managers with sell-side research to inform managers and secure a transaction (Livne and Trueman, 2002).

For the purposes of this research, it will be interesting to see how introducing an industry change that ends the soft-dollar norm is perceived by participants. New market entrants over the past several decades, for example, would have been educated on the use and practice of soft-dollars as an integral part of the investment process. To them, there has not been another way to place research. A regulatory change like MiFID II that ends this practice, then, could bring with it fears from those who have been taught to rely on this method to conduct business. This will be explored later.

2.3 Soft-dollar reform

Though soft-dollar usage encompasses both peripheral and central route tactics by brokers to influence manager investment decisions, the purpose of soft-dollars is to provide managers with sell-side research. Managers use this research to make informed decisions (Livne and Trueman, 2002). This access to information is key to the efficiency of financial markets to enable managers to make strategic investment decisions (Guo and Mota, 2019). With soft-dollar usage dating back as early as the 1950s (Blume, 1993) and with protectionist policies in place to protect the practice, the soft-dollar norm permeated the majority of transactions in the investment industry (Erzurumlu and Kotomin 2016; Wirth 1997; Livingston and O'Neal, 1996). Brokers and managers have relied on soft-dollars to conduct business, but their use or misuse has attracted attention from regulatory bodies (Porter and Rosenberger, 2004; Bender et al., 2021). This section looks at the ways soft-dollars have been viewed as having a negative impact to the finance industry (Ambachtsheer, 1993) and as a precursor to discussing MiFID II. MiFID II is the final reform on the soft-dollar practice which has implications for broker persuasion methods.

In 1975, the Securities and Exchange Commission enacted section 28(e) of the Securities Exchange Act of 1934 following the unfixing of trading commissions (Securities and Exchange Commission, 1986; Myers, 1987). Under section 28(e), managers could ignore best execution to minimize costs and maximize profitability, a fiduciary responsibility, but instead could consume additional services such as research from brokers at a value they determined themselves. This was payable through trading commissions so long as it helped their decision making ability (Porter and Rosenberger, 2004; Haslem, 2011; Horan and Johnsen, 1999). This safe-harbour for managers who would otherwise breech their fiduciary responsibilities (Haslem, 2011) raised concern over potential conflicts of interest as managers did not need to report the cost of research on profit and lost statements but instead passed them indirectly to their investor clients (Siggelkow, 1999). As a result, the argument for reform is such that trades executed under soft-dollars creates a lack of transparency to end investors (Conrad, Johnson and Wahal, 2001).

Lack of transparency most notably relates to two items that are a concern for industry regulators. The first is that soft-dollars incite conflicts of interest (Mahoney, 2004), and the second is that soft-dollars provide a lack of pricing transparency, effectively hiding the cost of trade execution to end investors. In looking at conflicts of interest, soft-dollars are a powerful tool used by brokers to attract manager investments (Haslem, 2011) and have been known to include more than just research as part of broker additional services under the safe-harbour act (Securities and

Exchange Commission, 1998). Managers that utilize soft-dollars for both research and non-research items are able to shift the cost of these services that would otherwise show reduced fund profitability. These costs, however, are passed on to the end investor in the form of broker commission payments (Siggelkow, 1999). Managers are therefore benefiting from services as well as reduced operating costs and higher profitability at the expense of the investor to whom they owe a fiduciary responsibility (Tittsworth and Edelstein, 2004). Because of these benefits, managers may lean toward choosing brokers who provide greater soft-dollar benefits rather than brokers who simply provide the best research or execution services for the benefit of their investor clients.

Looking pricing transparency, by bundling the cost of research and other sundries with trading commissions, it is difficult to know what portion of the commission was based on trade execution and what portion belonged to the cost of research. Investors are literally unable to see what they are paying for because costs are hidden. The limited research on the deconstruction of research versus trade execution shows that soft-dollar trades exceed the actual cost of execution (Conrad, Johnson and Wahal, 2001; Palazzo and Rethel, 2008). Indeed, in the study conducted by Conrad, Johnson and Wahal (2001) covering $260bn in orders over 38 institutions, they found that the cost of using soft-dollar brokers was significantly higher than execution-only brokers (Conrad, Johnson and Wahal, 2001). What their study fails to identify, however, is whether the monetary value of the research contained within the higher execution costs is proportionate to the cost to produce the research. In a pre-MiFID II landscape, brokerage houses didn’t have to quantify this cost, something that may cause apprehension to brokers and analysts becoming MiFID II compliant. It is conceivable that smaller brokerage houses cannot compete with large investment banks who can shift expenses between departments to offset analyst team costs. As a result, cost management may mean fewer analysts covering fewer companies which could lead to a drop in knowledge from a lack of research coverage. Interestingly, not knowing the answer to these kinds of questions may be best explained by the lack of information around soft-dollars to ‘industry outsiders’ including regulatory bodies which itself is due to a lack of transparency. Perhaps this is cause for industry actors to be resistant to the regulation change brought about through MiFID II.

The following section introduces MiFID II starting with the history of regulatory changes that have culminated in its inauguration. In addition, this section outlines the intended and unintended consequences of MiFID II and from the perspective on the sell-side, possible fears of this regulatory change are discussed.

2.4 MiFID II regulatory change

The Markets in Financial Instruments Directive II or (MiFID II) is a series of regulatory changes to bring increased transparency to the investment industry for all European member states. MiFID II's primary function stops the practice of soft-dollars and is the culmination of the ongoing debate over the misuse of soft-dollars previously nestled under the safe harbour act protecting the practice. Argued to be the result of the SEC mutual funds scandal in 2003 around late trading of mutual funds (Tittsworth and Edelstein, 2004; Haslem, 2011), and the financial market crisis in 2007 and 2008 which saw global economic crash (Prorokowski, 2015), MiFID II is in effect a revision of MiFID I that began in 2004 (Securities and Exchange Commission, 1986; Myners, 2001, Galanti and Vaubourg, 2017). In plain terms, MiFID II is partly related to ongoing regulatory reforms for increased industry transparency, and partly related to addressing allegations of "illicit broker kickbacks" (Haslem, 2011:101) under soft-dollars used by brokers to persuade managers to use their brokerage services. As part of the explanation of where MiFID II comes from and what it means for the investment industry, this section summarizes the main industry reforms leading up to MiFID II including notable SEC announcements on section 28(e) of the Securities Exchange Act of 1934, the Myners report commissioned in the UK, and MiFID I that was reconfigured and aptly named MiFID II (Securities and Exchange Commission, 1986; Myners, 2001). By outlining these reforms, MiFID II will be better understood as a series of changes that took years to develop and launch rather than something to the surprise of the investment banking industry. Interestingly, despite the advanced notice and slew of legal and regulatory firms poised to offer guidance on being MiFID II compliant, fears over how MiFID II would impact the investment banking industry and the daily activities of industry actors still presented themselves. These fears being predominantly based on a lack of knowledge as well as an overall reluctance to lose the soft-dollar practice.

2.5 The regulation landscape

MiFID II is a European regulation but the regulatory debate over soft-dollars that MiFID II stops is as global as the use of soft-dollars themselves. Indeed, soft-dollars have been at the heart of regulatory debate since the announcement of the safe-harbour act in 1975 (Porter and Rosenberger, 2004; Kaswell, Rosenblat and Sherman, 2006; Burgunder and Hartmann 1986; Jorden 1975; Biffany 2018). Because most reform around this practice is targeting increased transparency to end investors, it is no surprise that the majority of research comes from the perspective of the buy-side. While this study looks at persuasion methods from the perspective of the sell-side, the regulation literature is still pertinent as it showcases the movement from ambiguity on the position of soft-dollars to absolute removal of the practice over time. Initial articles around the soft-dollar debate, for example, discuss safe-harbour requirements as outlined in section 28(e) of the Securities Exchange Act of 1934, while later articles are focused on soft-dollar abuse lawsuits or finance industry ethics for permitting their use (Porter and Rosenberger, 2004; Myners, 2001).

Starting with the SEC, according to section 28(e), a manager may engage in soft-dollars if they can demonstrate it appropriately assists their decision-making ability as well as complying with six criteria. These are: One, that commissions are to be used to buy brokerage or research services not financial products. Two, that the research is to come from the same broker as the transaction. Three, that the commission paid under soft-dollars is deemed reasonable by the manager for the value of brokerage or research services received. Four, that no dealer markups are used to purchase research. Five, that the investment advisor has discretion over the account; and six, that it is for securities transactions not futures (Porter and Rosenberger, 2004). Arguably, terms like “reasonable”, “discretion” “good faith” as well as a general terms like “brokerage services” or decision “assistance” (see SEC 1986 interpretive release # 34-2317: Securities and Exchange Commission, 1986) elicit feelings of ambiguity that might explain the industry misuse of soft-dollars. It may also be why they have attracted attention from regulatory bodies across the globe. Interestingly, early regulation changes in soft-dollar use called for greater disclosure, record-keeping and transparency yet also broadens the definition and manager interpretation of research services which invariably promotes its misuse (Gillis and

Kern, 1986). This is found in the SEC 1986 announcement whereby a manager can use commission for "payment for products or services that serve both a research and non-research function" so long as "it provides lawful and appropriate assistance to the money manager in the performance of his investment decision-making responsibilities" (Securities and Exchange Commission, 1986 pp 4; Gillis and Kern, 1986). It is possible that the ambiguous 1986 release is why soft-dollars gained momentum through the 1980s (Haslem, 2011).

Further notable SEC announcements providing iterative revisions of soft-dollar allowances under section 28(e) include the 2001 and 2006 interpretive releases. The 2001 release offered a broadening of allowable transactions under safe harbour whereby managers had to use further 'good faith' that the commission payments were to the value of the research services received (Blanc, 2002). This led to US market laws called 'bills' calling for the revision of safe-harbour rules to only include actual research services from brokers to managers, plus appropriate reporting, and disclosure of the value of the research provided. One such bill was the Mutual Funds Integrity and Free Transparency Act of 2003 known as the 'baker bill' which effectively required managers to report annually to fund directors (not investors) their use of soft-dollar arrangements (Porter and Rosenberger, 2004). In league with this movement to increase transparency and reporting, the 2006 release further defines that managers are not in breach of fiduciary responsibility so long as three criteria are met for safe-harbour. These are one: that the product or service (i.e., research) meet the eligibility criteria of Section 28(e), two: that the product or service provide the manager with lawful and appropriate assistance in investment decisions, and three: that the manager concludes in good faith that the back end commissions are to the value of the product or service provided (Securities and Exchange Commission, 2006; Kaswell, Rosenblat, and Sherman, 2006). As part of these criteria, terms such as "knowledge", and "reports" were used by the SEC denoting that the product or service would be substantial in content (Securities and Exchange Commission, 2006; Kaswell, Rosenblat, and Sherman, 2006). Interestingly, this release still mentions valuing research in good-faith against a benchmark or standard that didn't exist. This is because research had been paid for by commission payments above and beyond best execution. Perhaps this is why early MiFID research has been more about monetizing research than the impact to persuasive methods (Meager, 2018; Sokolova and Bahgat, 2018), or why industry actors feared MiFID II around loss of revenue from a lack of knowing what to actually charge for research, something investigated by this study. This release, then, was more about the provision requirements of soft-dollars being for actual research and reducing misuse rather than stopping their use at all like under MiFID II.

Worthy of note about the SEC 2006 interpretive release is that it incorporated elements of the rules adopted by the Financial Services Authority (now the Financial Conduct Authority or FCA) in the UK in 2005 regarding the bundling of services under soft-dollars. Indeed, the FSA release further defined both the scope of research allowable through soft-dollars as well as transparency requirements to end investors. This included research that adds value to the investment from original thought, not a repackage of existing data. This original thought has to also have intellectual rigour and involve analysis to help managers reach a meaningful conclusion (FSA, 2005a, FSA 2005b; Derchert LLP report, 2005).

Further influence from Europe included the Myners report from the United Kingdom in 2001, French regulatory rules on commission sharing in 2007, and MiFID I that began in 2004 (Securities and Exchange Commission, 1986; Myners, 2001, Galanti and Vaubourg, 2017). The Myners report was ordered by the UK government conducted by Paul Myners to investigate institutional investment in the United Kingdom. The focus of the report was predominantly related to pension fund investment and whether there were any distortions in investor decision making (Myners, 2001). It also reviewed UK investment practices and the diversification of pension funds. The report highlighted several concerns relating to investment decision making, specifically around a lack of pension trustee (fund investors) knowledge of financial markets or current affairs to help them scrutinise manager advice; a lack of transparency from manager to trustee on investment principles, strategies, and transaction costs; and a lack of reporting to explain actions taken by the manager on their behalf (Myners, 2001; HM Treasury, 2001). This comprehensive report resulted in a lengthy deliberation by the UK government that concluded with the decision to put the Myners' report recommendations into practice. While responses to this news from financial institutions argued that transparency reporting might be too costly and actually reduce transparency rather than increase it, the UK government respectfully disagreed but acknowledged the process of providing information to investors should be simpler not more difficult (HM Treasury, 2001). The proposed approach to increased investor transparency was officially published on July 27th, 2001, which included mention of transparency on transaction costs. Specifically, that managers were required to disclose and explain transaction costs and commission payments for trustee understanding, and that trustees were strongly encouraged to not permit soft-dollars with respect to their fund's transactions (HM Treasury, 2001:12).

In addition to the Myners report, the French Financial Market Authority (Autorité des Marchés Financiers) also provided input to the regulatory debate with rules targeting unbundling research from brokerage fees using Commission Sharing Agreements (CSAs) (Bender et al., 2021). Under these rules that went into effect in 2007, managers and investors could choose to purchase third party research from an analyst not attached to the broker rather than one through the brokerage. This was an effort to reduce optimism bias in broker provided research. By choosing different sources for trade execution and investment research, the commission share agreement entitled the analyst to the trade commission to the value of the research (Galanti and Vaubourg, 2017). Interestingly, in the study by Galanti and Vaubourg (2017) of 58 French firms between 1999 and 2011, unbundling research proved successful in reducing conflicts of interest from managers which supports the intentions of MiFID II (Galanti and Vaubourg, 2017). The intentions of MiFID II will be discussed later in this chapter.

The last portion of the regulatory landscape to discuss before examining MiFID II is MiFID I itself. Originating in the UK, MiFID I may be argued to be both a culmination of industry reform to date as well as an attempt to increase industry transparency following the late trading mutual funds scandal of 2003 (Haslem, 2011). With regard to the mutual funds scandal, it is important to know how mutual funds are priced to understand why further transparency measures such as MiFID I were needed. Mutual funds are priced once per day with a market close time of 4pm Eastern Time in the USA. All trades for a given day should occur before the 4pm to be counted at that day's price. After the close of market, funds are priced for the following day and are made available from market open until market close at 4pm. Trade requests received after 4pm, then, are to be priced at the next days' price. As an example, a trade made on Monday at 3pm can be traded at Monday's price. A trade made at 4:01pm should be traded at Tuesday's price, which is available until 4pm Tuesday. Late trading occurs when a trading request is received after the 4pm close time but is permitted at the current day's price rather than the next day's price (Zitzewitz, 2006). By law these late transaction requests should be traded at the following days' price but some mutual fund firms permitted trade requests after 4pm to encourage investment. The scandal, then, involved backwards pricing by mutual fund managers whereby an investor could buy shares at yesterday's price if today's price had increased, effectively guaranteeing a profit so long as the new shares were sold before the close of market that day. Because late trades had been permitted for preferred investor clients only, the scandal benefitted some investors at the expense and detriment to others as well as overall performance of the fund (Houge and Wellman, 2005; Zitzewitz, 2006). Today, this would constitute insider trading. MiFID I, then, addressed the need for increased transparency to end investors, while introducing varying levels of compliance measures to prevent abuses like late trading.

As a body of legislature for financial markets, however, MiFID I is much larger than just the mutual funds scandal because it encompasses industry change across all European Union (EU) member states on the activities and practices of investment firms (Skinner, 2007). MiFID I or 'Directive 2004/39/EC' is a set of regulatory rules aimed at increasing transparency to better protect end investors as well as promoting increased competition across pan-European capital markets (Eur-Lex.Eruopa.eu, 2016a). In this regard, MiFID I stands apart from other regulatory measures that are country or financial instrument specific by setting out to fundamentally alter the structure of the investment industry across Europe (Skinner, 2007). Indeed, MiFID I as a piece of legislature deregulates individual member state markets and harmonizes the rules for investment services and activities as well as the regulation of investment firms and trading across the EU under a single governing body: the European Securities and Markets Authority (ESMA) (ESMA Consultation Paper 249, 2014:10). Under MiFID I, for example, an investment firm can trade across borders without individual country regulatory rules but instead trades under a new EU-wide governance that is monitored by each country's regulators. While regulators are country specific, they are all following the same rule book under ESMA, levelling the playing field for investment firms across Europe while providing a wider range of financial instruments for managers and greater choice for end investors (Skinner, 2007). While increased competition is a commendable aim of MiFID I it is the transparency measures that are of interest in this study.

Looking at transparency, there are two facets under MiFID I that have an impact on the practices of brokerage houses using soft-dollars to entice manager investment decisions. These are: one, pre- and post-trade transparency rules, and two, best execution requirements which includes conflicts of interest and inducements to trade using research. Both of these measures are geared toward end-investor protection but act to force managers to re-evaluate how they obtain research as well as what they disclose to their investor clients. Best execution under MiFID I, for example, denotes that managers will be held accountable for not choosing the best possible outcome for their clients, with prices visible to the end investor, something that had been hidden with soft-dollars. Indeed, article 44(3) states that for retail orders, price should be given priority for execution (Eur-Lex.Eruopa.eu, 2016a). The pre- and post-trade transparency rules under MiFID I are designed for similar end-investor benefit. Under MiFID I, regulated markets (such as the London Stock Exchange) are required to make information available about orders made through their systems; and post-trade transparency requires regulated markets and investment firms to publicise completed transactions so long as they didn't fall outside of typical transaction sizes for any given market. Particularly large transactions, for example, were granted exemption from such transparency rules (Skinner, 2007).

As a measure of success, MiFID I effectively reduced barriers to cross-border trading and reduced monopolies such as the London Stock Exchange for execution (Norris, 2009). In the literature examining the effects of increased transparency, research shows that MiFID I indeed reduced conflicts of interest such as those from bundled services, with an increase in the amount of money spent on research and lower commission payments (Abrahamson, Jenkinson, and Sousa, 2012). In the same vein, however, MiFID I has come under scrutiny as not providing the investor protection it hoped to create. In an article by Norris (2009) examining the relative merits of the regulatory change, participants exclaimed that while MiFID I brought with it compliance rules, managers were still participating in bundled services whereby execution was tied to other services such as research. According to participants, this was because no checks were in place to ensure rules were being implemented (Norris, 2009). Similarly, after MiFID I taking three years from inception to launch between 2004 and 2007, it was quickly overshadowed by the sub-prime fiasco which led to the financial crash of 2008 (Prorokowski, 2015). It was clear that MiFID I needed further revision including a stricter regulation of markets and a requirement to always pay for research with compliance bodies to ensure adherence (Norris, 2009).

Now that the regulatory landscape has been reviewed in detail, it is interesting to see the evolution of regulation changes in the investment industry surrounding investor transparency and use of soft-dollars. In addition, discussing these changes at length underlines the sheer volume and longevity of changes made under MiFID I. However, as shown above, MiFID I carried with it inherent flaws whereby compliance measures were not effectively tracked for implementation. Coupled with the advent of new trading platforms that fell outside of the regulation (Yeoh, 2019) and sub-prime crisis, MiFID II or 'Directive 2014/65/EU' is seen as the conclusive revision to MiFID I. The following section examines MiFID II including its intentions as well as consequences and possible fears.

2.6 MiFID II intentions

As discussed earlier, MiFID II furthers the original goals of MiFID I including increased competition, transparency, and investor protection (Lannoo, 2017). Indeed, a relative level of competition has been achieved under MiFID I with a single rule book across pan-European markets whereby investors are not bound by different rules across EU member states (Lannoo, 2017; Busch, 2017). For the purposes of this study, transparency is the core theme of MiFID II which includes rules for pre- and post- trade price transparency, reporting requirements, and outlawing research bundling which is seen as trade inducement (Lannoo, 2017). These mandates impact the peer-to-peer communication practices between brokers, analysts, and managers, and stops the industry practice of soft-dollars.

A key difference between MiFID I and MiFID II is the new legal framework to enforce regulation changes that were missing under MiFID I (Valiante and Bashir, 2011; Norris, 2009). MiFID II therefore supersedes MiFID I with a vision to close the loopholes in the structure of financial markets and change the behaviour of industry actors with an enforceable set of rules. One measure, for example, establishes an Organized Trading Facility (OTF) to capture unregulated trades which would run alongside trading venues of regulated markets such as the London Stock Exchange (Eur-lex.Europa.EU, 2016b). These OTF trades are recorded and publicised under MiFID II, giving greater market transparency for previously unregulated trades. Another measure under MiFID II enforces pre- and post-trade pricing transparency and establishes measures to circumvent advances in technology such as software used for high-frequency trading (Eur-lex.Europa.EU, 2016b). The intention again is improved transparency to investors. With this in mind, the following section outlines the different aspects of MiFID II transparency with a persuasive lens as it pertains to peripheral and central route impact, as well as possible consequences.

It is important to note that the line between peripheral and central route impact is not a clear-cut line. This is because under MiFID II, some rules straddle both peripheral and central routes. The requirement to reduce or prevent conflicts of interest, for example, has both peripheral and central route implications because on the one hand, it prevents managers from meeting socially with brokers without first publicising and recording the engagement (peripheral impact), and it prevents brokers from using soft-dollars to provide research as an inducement to trade (central impact).

2.6.1 Pre- and Post-trade transparency

MiFID II imposes pre- and post-trade transparency requirements in order to account for as many trades as possible for the purpose of price information (Busch, 2017). While the topic is trade transparency, the goal is to provide end investors with mountains of information about how much a particular financial product is trading for. For regulated markets, firms are being required to publicise current bid and offer prices for shares which must be advertised through their systems. In addition, firms must publicise how much interest they are receiving for those shares on a continuous basis. While there are instances where pre-trade price transparency can be waived such as large orders that may disrupt markets, MiFID II regulation has tightened these allowances to reduce dark pools where pricing is not shared with the public (Busch, 2017). In relation to post-trade transparency, firms are required under MiFID II to publicize as close to real time as possible the price, volume, and the time of execution. A delay in trade transparency may be granted if the trade is sufficiently large, but only if prior authority has been granted by the market authorities (Busch, 2017).

In terms broker impact, dark pools allow trades to occur without making them public. This suits brokers because if a firm is ready to sell a large number of shares they can keep pricing high while keeping fees low and benefit from the commissions. With MiFID II reducing dark pools through trade transparency requirements, brokers may well face price devaluation on the same firm announcing a large share sale. While the investor sees how much the price is up front as well as a potential reduced purchase price, brokers are faced with the unintended consequence and fear of reduced revenue if the publication of information does in fact cause a devaluation. Similarly, investors may choose not to invest if the share price begins to fall, creating a potential downward spiral whereby investors see a devaluation, choose not to invest, causing further devaluation. Such a spiral carries with it inherent fears over loss of revenue and market volatility. Indeed, one of the arguments against trade transparency under MiFID II is the potential negative impact to price and market volatility. This has been met, however, with regulatory bodies focused on reducing such effects (Milos, 2021; ESMA, 2020).

2.6.2 Reporting requirements

Reporting requirements under MiFID II span both trade and transaction reports which sounds confusing because a trade is also a transaction. The difference under MiFID II lies in the respective audience. Trade reporting is intended for the public to increase market transparency based on a history of little or poor available data, whereas transaction reports are intended for regulators to monitor the details of the exchange as well as to identify and investigate potential market abuse (Busch, 2017; FCA, 2014). These provisions for trade and transaction reporting include processes and procedures through which all firms must disclose information to competent authorities. For trade reporting, firms must disclose all trade information using an electronic systems called Consolidated Tape, organised through authorised Consolidated Tape Providers that hold and publish the latest price and volume data of listed stocks. In addition, trade reports have to be published via Approved Publication

Arrangements (APAs) which are also monitored for data quality (FCA, 2014). Requirements for transaction reporting follow a similarly regulated mandate under Approved Reporting Mechanisms (ARMs) whereby firms provide all transaction information including price, volume, client information, and any other financial information advertised through their systems (FCA, 2014, Busch, 2017). Like trade reporting, transaction reporting must be fast. Unlike trade reporting, however, transaction reporting does not need to be available within 15 minutes of the trade. Instead, it can be made available by the end of the next working day (Busch, 2017). The reporting requirements under MiFID II add to the intention of increased transparency but the public are not the only beneficiaries. Regulatory bodies also benefit from consistent, quality data because it helps them gain market knowledge to better monitor and oversee market operation. In terms of broker impact, fears may arise in the form of transaction speed. Indeed, Carrie (2008) argues that one reason electronic platforms failed in the past and why managers were ok paying higher fees to brokers was because brokers could act faster than early electronic platforms (Carrie, 2008). Another potential speed related fear is embedded in the administration of reporting requirements. If a broker's main activity is to sell shares, the more managers conversed with in a day likely means more transactions. If additional time is spent on the publication of pricing and reporting of all trading and transaction activities to meet regulatory requirements, brokers may have less time to focus on their core objective, selling to managers. More about fears will be discussed in the consequences section later.

2.6.3 Research unbundling

Under MiFID II, there is an explicit requirement to separate investment research from bundled services which goes beyond the intention of providing greater transparency to end investors. It also targets conflicts of interest and market practices, effectively finishing the cultural practice of soft-dollar arrangements (Fang et al., 2019). As discussed earlier, soft-dollars represent a cornerstone in the investment industry with the practice dating back as far as the 1950s (Blume, 1993). Their use serves as the main delivery vehicle through which brokers place sell-side research to influence manager investment decisions. Since the safe-harbour act, soft-dollars have come under increasing scrutiny from academics and regulatory bodies with a series of regulatory changes that still permitted their use (Mahoney, 2019; Kaswell, Rosenblat, and Sherman 2006). Just as the legal framework under MiFID II is a key differentiator from MiFID I to enforce regulation compliance, so is the new approach to handling research bought through soft-dollars. Under MiFID II, investment research can no longer be bought through credits from brokers to managers but instead must be paid for upfront with hard money (Tittsworth and Edelstein, 2004; Lins, 2003). Brokers must now distinguish what services and associated costs are for execution, what costs are for advisory services, and what costs are for research. Further, MiFID II requires that brokers do not persuade clients by providing research under the cost to produce it and must document all costs under the definition of research that must then be provided to managers. This is not all, firms such as investment banks are required under MiFID II to be active in identifying and recording circumstances where conflicts of interest do or could exist such as with soft-dollars (FCA, 2017). An investor who thinks their manager is not acting in their best interest due to bundled commissions under soft-dollars, for example, regardless of the research received, may choose to invest through a manager who can clearly show a separation between research costs and commission payments. In fact, under MiFID II, merely disclosing conflicts of interest is considered a last resort as the preferred course of action is to prevent conflicts from happening to begin with (FCA, 2017).

With these measures in place, there are both intended and unintended consequences of MiFID II. Research unbundling, for example, achieves its intention to break out research costs passed to the end investor from transaction commissions, but what else does it do? For brokers, it carries with it fears about how to offset revenue loss from bundled commissions but more importantly, how they continue to influence managers using research. The following section looks at the consequences of MiFID II, including unintended consequences, inherent fears, and the impact to persuasive methods used by brokers.

2.7 MiFID II consequences, fears, and persuasive routes

The majority of available research around MiFID II is centred around monetizing research from research unbundling which highlights its prevalence in terms of impact to the industry. In combining trade, transaction, and reporting requirements, the biggest consequence is the administrative and infrastructure costs associated with being MiFID II compliant. To illustrate this, while the data points required for price and volume are few when compared to transaction reporting, being compliant for trade transparency requires additional steps to ensure near real-time and appropriate trade reporting to Consolidated Tape Providers (CTPs) through Approved Publication Arrangements (APAs). This can be via a trading venue or third party if so authorized (FCA, 2014). Similarly, for transaction reporting, Approved Reporting Mechanisms (ARMs) must be used whereby firms provide all transaction information including price, volume, client information, and any other financial information advertised through their systems (FCA, 2014, Busch, 2017). In each of these cases, a significant amount of time and effort has to be dedicated for the collection of data that meets new MiFID II quality requirements. In addition, by the investment industry creating new ways to provide industry data to both the public and regulators across pan-European markets, it is not as simple as posting a receipt online for others to see how much a person paid for a product or service. Indeed, when using online search engines for the term 'MiFID II compliance help' in the Google search engine, over 1,380,000 search results shows in 0.48 seconds for information (see Appendix A). Perhaps the fear of being compliant, along with the fear of increased costs, is evident in the fact that MiFID II was also delayed a full year from January 2017 to January 2018 to allow for greater implementation time (Walker, 2016; Fantato, 2015). With European Member Countries being required to bring MiFID II mandates under national law by the time of implementation including the infrastructure to support trade and transparency requirements, there is no surprise this took time and that there was a fear of compliance. The European Commission, for example, posted the number of measures for each European Member Country to transpose into national law under MiFID II. The United Kingdom required 10 legal measures with countries like the Czech Republic requiring 84 (Eur-lex.Europa.eu, 2017).

In terms of transparency and reporting impact to persuasion, there will be a significant impact to the peripheral routes used by brokers (such as their ability to build rapport) that negatively impacts their relationships with managers. As examined earlier, research shows that rapport is a first impression tool for initial interpersonal interactions for developing new relationships (Grahe and Bernieri, 1999; Acosta and Ward, 2011). It provides a positive chemistry between people and is a tool to help influence sales or predict the future outcome of a new relationship (Tickle-Degnen and Rosenthal, 1990). Brokers, then, are impacted in their ability to build rapport post-MiFID II when compared to pre-MiFID II because it impacts the way they can communicate. Taking the example of a phone call whereby a broker may enthusiastically introduce himself and the summary of the potential deal to a manger that could warrant a meeting, this cannot happen under MiFID II. Similarly, if a broker wanted to meet socially with a manager to market-sound a potential deal to gauge interest before taking on a new client, this too cannot happen under MiFID II (FCA, 2014). These kinds of communications first have to be prefaced with disclosures, compliance scripts, and near real-time public notifications that could have market impact before they can engage in any rapport building activities such as phone calls or social interactions to open the door with managers (Palmatier, Scheer, Houston, Evans and Gopalakrishna, 2007). It is the intent of this study to find out just how much peripheral routes, such as rapport, are impacted due to MiFID II as well as whether new opportunities are afforded to brokers to persuade managers in a different way. Could prefacing a call with boastful compliance measures, for example, be a new way to gain manager interest at the point of introduction? There is ample research, for example, around the use of transparency to build trust (Mohan, Buell, and John, 2019). While trust is not an expressly examined peripheral route, peripheral routes combine to build trust. Indeed, trustworthiness is seen as a sign of credibility (Self, 1996; Shan, 2016; Li, 2012; Petty and Wegener, 1999; Priester and Petty, 2003; Fogg and Tseng, 1999) which in turn can affect rapport from the perspective of creating a positive interaction (Grahe and Bernieri, 1999; Acosta and Ward, 2011). Indeed, in the study conducted by Mohan, Buell, and John (2019) on the benefits of cost transparency, they found that while firms do not usually provide cost information in the sale of a good to a customer, sensitive cost disclosure can foster trust, and therefore buyer interest (Mohan, Buell, and John, 2019).

Research unbundling is where greater consequences and therefore fears may lie. Unlike MiFID I, MiFID II succeeds in separating research from commission payments which is supported by much of the early MiFID II research being focused on how to monetize research and the rules of compliance (Meager, 2018; Sokolova and Bahgat, 2018; Busch, 2017). There are more consequences to consider than how to recoup lost revenue as part of research unbundling, however. In a study conducted by Jefferies Group, an investment bank located in New York City, USA, they outlined several potential research-related consequences including increased administrative costs; more focused research offerings from smaller institutions; and reduced analyst coverage (Jefferies Group, 2017). In their words, MiFID II is a new financial services 'big-bang' but a negative one that could stop soft-dollar use in non-European markets (Jefferies Group, 2017). The USA and other financial markets are not investigated in this study but could be part of future research. The SEC released a 'no-action' relief letter on October 26th, 2017, for example, to help facilitate the US market with Europe using hard-money for research payments, but it also protected the practice of soft-dollars for US brokers receiving commissions for research, indemnifying US-based firms from the research unbundling requirements of MiFID II (Securities and Exchange Commission, 2017). How long that lasts may depend on the outcome and relative successes of MiFID II. The first letter from the SEC that expired in 2020, however, was prematurely extended with a new 2019 release, continuing this no-action from the United States until 2023 (Securities and Exchange Commission, 2019).

Fears associated with increased administrative costs are likely to be felt more by smaller firms than large banks due to their inability to cover the cost of research production (Guo and Mota, 2019; Lang, Pinto, and Sul, 2019). This may be accompanied by analysts following fewer companies, choosing to focus only on those opportunities that will sell versus providing broader coverage. In addition, the increased administrative cost may mean fewer industry analysts, reducing research production overall. Indeed, research shows that MiFID II has had a negative impact to research including production quantity, increased cost of production, and reduced manager demand due to the explicit requirement to pay for it with hard money (Fang et al., 2019; Liu and Yezegel, 2019; Lang, Pinto, and Sul, 2019). In fact, in a study by the CFA institute (2017), a global non-profit institution providing professional investor education that surveyed over 300 firms from 28 European countries, they found that 78% of buy-side professionals expect to source less research as a result of MiFID II with 21% not knowing what they will do to obtain research (CFA, 2017). This means the number of analyst jobs is likely to decrease post-MiFID II. In terms of persuasion, it is the position of this study that research unbundling under MiFID II changes the way brokers use this central route persuasive method to influence manager decisions. As explained earlier, the purpose of soft-dollar use by brokers is to provide managers with sell-side research which they in turn use to make investment decisions (Livne and Trueman, 2002). This access to information is key to the efficiency of financial markets (Guo and Mota, 2019). With research providing the necessary information for managers to make informed investment decisions, and with the explicit requirement to pay for that research up front out of dedicated funds, brokers will have to find new ways to place research outside of the soft-dollar norm to place research. In addition, brokers may be faced with reduced manager interest in research, reduced research production from fewer analysts writing research on fewer companies, and an overall drop in market knowledge. If a brokerage house cannot afford the analyst team to write the research, for example, less research will be available to place. From a central route perspective, there may simply be less opportunity for brokers to influence manager decisions, with hurdles to overcome in how to get managers to pay for research that was otherwise provided 'free' under soft-dollars. Brokers, however, also leverage their analysts as a source of credibility to gain manager interest (Mercer, 2004). A manager is therefore more likely to listen to a broker if they have access to credible analysts, something MiFID II could reduce. Similarly, if there are fewer analysts, the ability to leverage social proof is also negatively impacted because research shows managers pique interest when many analysts are following a firm (Rao, Greve and Davis, 2001).

Chapter Three: Methodology

The following chapter outlines the methodological approach, research design and approach to data analysis to answer the research questions. The first section describes and justifies the decision to pursue a qualitative methodology which includes the chosen epistemological and ontological position. The second section outlines the research design and procedure including sampling method, locating participants, data collection, and interview procedure. The third section outlines the approach to data analysis, coding, and data interpretation in order to answer the research questions. The fourth section describes the ethical considerations and protocol followed throughout this research. The fifth and final section outlines the structure of the industry to provide context for the data analysis chapter.

3.1 A qualitative approach

This research seeks to understand broker persuasion methods through multiple methods of interpersonal and written communication pre- and post- MiFID II regulation change. Because this regulation impacts soft-dollar arrangements which are considered a cultural norm in the investment industry, and with MiFID II regulation change being such a new initiative, there is insufficient data to explain persuasion methods using a quantitative experiment. In addition, because brokers use a combination of verbal and written communication methods, and because tactics may be utilized in real time, a qualitative approach helps evaluate persuasion used in their natural environment (Bevir and Kedar, 2008). Now, written communication invites investigation into language use, framing, and disclosure of information within a sell-side report. Indeed, research shows managers value the opinions and words included in reports by analysts (Camp, 2007). A different type of study would be required, however, to analyse the variations in research report type across individual industry specialities rather than examining investment industry persuasion methods overall. This study is concerned with the use of research as the central persuasive route in general whereby the literature shows written communication is a persuasive tool (Camp, 2007; Sant, 2012).

3.2 Epistemology and ontology

An interpretive naturalist ontological and epistemological perspective was employed for this qualitative study. This is because meaning from the data collected is derived from understanding the context of participant interactions and communications in their natural environment (Bevir and Kedar, 2008). This differs from other approaches in qualitative research such as positivism which assumes reality exists objectively and externally and can be measured using surveys or other tools (Bell, Bryman, and Harley, 2022). In relation to this study, an interpretivist view means understanding how brokers persuade and their view of MiFID II, giving a 'voice' (Leitch et al., 2010) to the underrepresented sell-side. This is obtained by collaborating with participants and interpreting their interview responses based on how they explain, justify, experience, and interpret MiFID II regulation impact on their daily lives, activities, relationships, and the investment banking industry.

Speaking more to the interpretivist view, Mason (2002) argues that while a literal ontology focuses on the literal reading and structure of a document, the interpretive approach involves constructing meaning from a document based on inferences from the reader (Mason, 2002). An interpretivist view as applied to words participants use, for example, provides two benefits to this research. The first is based on dual routes to persuasion. Brokers may use different terms for the same thing, such as roadshows or meetings, which could mean the same kind of formal personal interaction. A literal ontological view would classify these two things as different items rather than interpreting them as the same but using different words. The second benefit is concerned with the participant group. Discussed in more detail below, this research focuses on UK investment professionals rather than those from non-English speaking nations to harness native language understanding. This means idioms used in conversation are innately understood during the interview process with an interpreted meaning, something that might not be possible between a native and non-native English speaker. Some level of interpretation is therefore necessary to understand participants and their persuasive tactics. In addition, it is impossible to already know the different variations of participant opinions as little research currently exists from the perspective of the sell-side. The nature of the research questions, then, require a qualitative research approach with necessary interpretation of opinions expressed by participants.

Looking at epistemology, this is primarily concerned with the nature of knowledge or how one knows things (Bryman and Bell, 2011). Taking a naturalist approach is both a logical and appropriate fit given the level of interpretation needed for data analysis of the participant pool. While philosophical research attaches a naturalist view with words like ‘empirical’ and the hard sciences (Quine, 1969; Goldman, 1986), a naturalist view is equally attached to the natural environment (Rosenberg, 2007). Indeed, when applying a naturalist view to the social sciences, it is concerned with making an observation as well as finding explanations as to why things unfold as they do (Rosenberg, 2007). This means having the ability to observe participants in their natural environment rather than creating a sterile one (Denzin and Lincoln, 2005). This approach differs from laboratory experiments which may reduce the natural environment to a study of frequencies for cause-and-effect variable relationships that may not hold true for the real world (Levitt and List, 2006; Kessler and Vesterlund, 2015). An example of this might be the use of university students in an experiment to explain to others in their own cohort the strength of investment opportunities compared to sell-side research presented to managers. The university students may well understand some terminology such as stocks, bonds, mutual funds, average rate of return (ARR) and trailing twelve months (TTM) but these pale in comparison to brokers and managers with years of real-world investment experience and specialist knowledge. What is considered a persuasive argument in the student experiment may not be considered persuasive by managers in the real-world (Yest and Grant, 2013).

Qualitative methods are widely used in research and scholarship (Divan et al., 2017) with wide appreciation as a methodological approach to data collection (Rosenthal, 2016). This is not to say qualitative methods differ in quality compared to quantitative methods in data collection and interpretation, quite the contrary. Quantitative and qualitative methods are not distinct and separate, they both bring with them researcher biases (Spicer, 2012). In this sense no research is ever conducted without motivation toward finding answers to questions that originate from the researcher (Spicer, 2012). Similarly, data interpretation relies upon analysis of the data, making it partially subjective as it has to “pass through the researcher’s hands” in order to have meaning (Silverman, 2007:55).

For this reason, a reflexive approach to data collection and analysis helped in maintaining objectivity in both data collection and interpretation (Brewis and Wray Bliss, 2008). The importance of reflexivity is integral with data collection and interpretation for analysis using this ontological view. According to Mason (2002), a key element in qualitative research is to be aware of how one’s own thoughts and decisions shape how the research is conducted, and what the researcher ‘sees’ through the study (Mason, 2002). Choosing different email communication approaches to solicit participants, for example, seeks to reduce potential experimenter effects and is one way to apply reflexivity. The same is true of data collection and analysis, with reflexivity providing an opportunity to interpret the interpretation of data collected. In this way, the data can speak for itself as part of the construction of meaning rather than seeking ‘a priori’ answers through a leading interview structure (Alvesson and Sköldberg, 2009).

3.3 Research design

MiFID II is a European Union (EU) directive that included the United Kingdom (UK) prior to Brexit and remains part of UK law. Though MiFID II does affect non-EU financial institutions such as the USA in terms of business relationships within member countries, only the EU has mandated industry change. By focusing on an EU country, it was possible to better understand MiFID II impact on the methods of persuasion used by brokers to influence manager investment decisions. Due to my own language limitations, the UK was also the most obvious choice for locating participants. I am also native to the UK and familiar with idioms used in verbal and written communications, making it easier to assess meaning through language use during data collection.

There are many cities to target but brokers tend to congregate in and around a financial hub. London is home to a vast number of investment professionals and the London Stock Exchange. The London stock exchange was officially founded in 1801 but can trace its more primitive origins back to 1698 (London Stock Exchange Group, 2018). As such, London represented a larger participant pool than alternative UK cities.

3.3.1 Sampling

In order to speak with brokers, analysts, and other industry actors in the investment industry in the UK, a strategic purposeful sampling design was chosen to target participants (Saunders, 2012; Mason, 2002; Kuzel, 1999). This method contrasts with probabilistic and random sampling which is designed to simulate the general populace for generalization of results across contexts (Creswell and Plano Clark, 2007, 2011; Patton, 2002). Purposeful sampling, however, is commonly used to yield participants in qualitative research where they have specific knowledge in a particular area (Patton, 2002). Not only this, but with a qualitative methodology, samples must support research of participants in their natural environment (Bevir and Kedar, 2008; Sandelowski, 1986). Employing a purposeful sampling method allowed for the most productive sample to be identified, providing direct insight into real life applications of theory that is also information rich (Seale, 2004; Patton, 2002).

Snowball sampling was also employed to increase the sample size for suitable analysis. Snowball sampling aims to gain new participants from referrals of the initial sample (Burgess, 1984; Miles and Huberman, 2002, 1994; Kuzel, 1999). This was not to over saturate the sample size, but to allow for viable thematic analysis of interview responses (Braun and Clark, 2006). According to Voicu (2011), snowball sampling also helps find 'hidden' populations. The key benefits to this additional sampling method is three-fold. One, it helped gain access to additional participants that would otherwise be hidden without existing participant networks; two, it provided increased trust from new participants who have been referred from an existing participant; and three, less time and effort was necessitated to find additional participants (Voicu, 2011). This was particularly useful given the anticipated difficulties in finding brokers willing to talk about sensitive matters such as MiFID II.

To ensure awareness of potential short falls in sampling method, it is important to acknowledge the limitations of purposeful sampling from a methodological approach. Firstly, there are several types of purposeful sampling, of which snowball sampling is one, but in general, the technique is split into two groups. Group one seeks outliers to the researched phenomena in order to capture unusual experiences. Group two seeks homogeneity to limit variation. Secondly, when using purposeful sampling in qualitative research, it is difficult to know at the outset of participant recruitment which group they belong to, making it harder to identify a common core in responses. Knowing this at the outset of this research, however, ensures a sufficient sample was obtained to establish core themes in the collected data. Indeed, the purpose of using a qualitative sampling method was to gain enough participants and collect enough data to achieve response saturation for viable data analysis (Miles and Huberman, 1994). For the purposes of this research, there was no exclusion of participant based on whether their experiences or opinions are considered outlier or common.

3.3.2 Participant selection

After obtaining ethics approval, the purposeful sampling method was undertaken to obtain participants needed for this study. Prospect lists were built using online searches, industry directories, referrals from cold calls and listings of companies from the London Stock Exchange website. Participants were then sourced through cold calling and emailing the prospect list database. Two main approaches were used to gain participant interest. The first was an academic approach telling prospects that the voice of brokers were underrepresented in-light of MiFID II, and that the purpose of this research was to add that voice. The second was a more obfuscated approach, similar to using a cover story to avoid influencing responses when conducting a questionnaire. Initial contact and calls asked to learn about a 'day-in-the-life' of a broker. In each method, the goal was to gain market access to collect data through semi-structured interviews.

All participants were located in the UK, predominantly in the London metropolitan area. As mentioned in the previous chapter, the location of participants around the London area is due to the city being a financial hub, a place where more potential participants exist. An initial introductory call and email was sent asking individuals, teams, and firms for their participation in this study, with several phone calls and follow up emails to gain interest. Several hundred calls were made, and several hundred emails were sent to solicit participants. This was an iterative process to try and gain as many participants as possible. Out of the replies, 10 of the participants who consented to a recorded interview conversation also participated in the study against a participant goal of 20. Once a participant agreed to be in the study, a consent form and interview time was sent and confirmed with them. When a participant joined the recorded call, confirmation of consent was discussed again before starting the interview. Three additional participants are not formally included in this study but were successfully sourced (all brokers). After they learned more about the study, in particular that questions may include references to MiFID II on a recorded line, they declined for different reasons. One, for example, had to seek interview approval from their new compliance officer (a new role for their brokerage firm since MiFID II) but did not receive it. More will be discussed on this later.

3.3.3 Participant demographics

The following paragraph lists the demographic data of the participants. Data was obtained from ten participants who consisted of three institutional brokers; four institutional analysts; one corporate finance analyst, one corporate finance broker, and one AIM pre-money CEO working with institutional brokers.

A summary of participant demographics are below:

Participant Role	*Gender*	*Age range*	*Years in industry*	*Location*
Broker	Male	50+	20+	UK
Broker	Female	42-49	20+	UK
Broker	Male	50+	20+	UK
Corporate Broker	Male	42-49	15 - 19	UK
Analyst	Male	42-49	20+	UK
Analyst	Male	42-49	20+	UK
Analyst	Male	42-49	15 - 19	UK
Analyst	Male	42-49	20+	UK
Corporate Analyst	Male	25-32	< 5	UK
Company CEO	Male	42-49	15 - 19	UK

One analyst in the role of 'Head of institutional research' was unable to participate via audio call due to time constraints so the interview questions were provided via email. Their response arrived promptly with references within stating "see response above" and an email reply stating: "very long questionnaire" upon completion. The reason this is pointed out is to underscore the value participants placed on time and their own time management. They are incredibly focused on their craft, giving little time to those outside of their daily activities. Their purpose is to close financial transactions. In part, this is due to managers giving brokers a limited amount of time on a phone call or in a meeting, with their analysts equally stringent on time. For them, it is imperative to talk with as few non-industry professionals as possible. As one broker explained:

> *"They [managers] … you'd have a window of about 30 seconds to say 'I've got this company it's 'X' market cap, it's doing this… you'd have to put in a very compelling story. If you sounded like you made sense, and it sounded something that appeals to what they were looking at they would maybe agree to take a meeting… [and] …the standard in the London market is a one-hour slot with a fund manager and it is exactly one hour."* (Broker 1, 2019).

Indeed, many interviews took place outside of regular business hours, including evening calls while walking to the local 'tube' station or travelling to or from their office.

In addition, MiFID II has drastically increased the administration time on recording, logging, and reporting broker activities as part of compliance measures which further impacts access to these already scarcely available industry professionals:

> *"Everything is recorded on phones now and you know, everything is written down and held against…the paperwork and the length…it's long, it's tedious but it's what we do now."*
> (Broker 1, 2019).

Combined with the sensitive nature of this study, the difficulty in gaining access to participants was compounded so gaining 10 participants has been a success. One important note about participants is that the diversity of participant type has helped improved data analysis. As an example, institutional broker participants expressed that fewer companies are going public due to fear of the regulation 'hoops' to jump through. A corporate broker participant also commented about using fear of regulation as a persuasive tactic to keep the transaction private and therefore away from institutional brokers. The two participants provide confirmation of a view about fears circling MiFID II from different sides. Again, more about post-MiFID II impact is discussed in the following chapters.

Participants were predominantly from London-based institutions including investment banks, boutique brokerage houses, corporate finance offices, and research houses. Each participant was head of their department barring the corporate analyst. The corporate analyst was by far the most junior of the participants and could be considered an outlier, but due to having recent exposure to the effects of MiFID II, their inclusion is useful and valid. All participants had considerable tenure in their fields, between 15 and 32 years in the investment industry, with the corporate analyst having just 3 years' experience following university graduation and an internship with the same company. Similarly, participants' ages were all similar, denoting considerable tenure and sufficient time spent establishing industry relationships to assist in their day-to-say activities. Ages ranged from 42 to over 50, again barring the corporate analyst whose age range was 18-25. The significance of the age and tenure in the industry will be discussed later but regardless of role, the weight on relationships (building rapport, maintaining existing relationships, knowing a clients' wants and needs ahead of interactions, and being 'connected') were expressions shared from each participant as paramount to succeed in the industry.

3.3.4 Participant incentives

No incentive was offered to participate in this study, monetary or otherwise. Incentives have the ability to act as a distractor and may entice the wrong kind of participant to the study. However, it is fair to presume that participants sought in this study are very unlikely to be persuaded to participate based on a menial monetary reward. This presumption is based on accessible compensation data that suggests the base salary of brokers and managers in the UK is up to £150,000 with significant commission and bonuses on top (Pros pectus, 2019).

3.4 Data collection

The primary data collection method employed was semi-structured interviews. Semi-structured interviews allowed for a more relaxed approach to gathering data as well as following appropriate ethical considerations. They provided a practical and suitable data collection method for gathering participant views and opinions, especially when considering sensitive content (Guest, MacQueen, and Namey, 2012; Seale, 2004). This is not all, the use of semi-structured interviews are considered the most commonly used data collection tool by qualitative researchers (Alvesson and Deetz, 2000; Qu and Dumay, 2011). According to King (2004), semi-structured interviews are also conducive to generating rich primary data through an open conversation (King, 2004). In this sense, the use of semi-structured interviews allowed for practical construction of homogenous base-lines for each participant, as well as for contextual situations to grow naturally from the interview (Mason, 2002). Indeed, when taking into account participant individual differences (such as their level of verbosity), semi-structured interviews provided the flexibility for probing interview questions suited to thematic analysis. In this regard, unstructured interviews did not fit the current research as it could have taken discussions in a very different direction than the core research. Indeed, Braun and Clarke (2014) posit that semi-structured interviews are most useful to explore questions based on the perceptions, every day practices, and experiences of the interviewee.

3.4.1 Semi-structured interview procedure

A key tenet to the interview questions was to appropriately deliver questions and probes to get participants to talk about methods of persuasion and MiFID II. While the first interactions with participants happened earlier via email or phone call to gain interest and explain the process, data collection from interviews happened at the interview stage. The structure of the interview helped install trust with participants as well as aide in the collection of good, useful data (Braun and Clarke, 2014). The first stage of the interview was aimed at building rapport. Research shows that building rapport at the beginning of an interview helps both parties relax, allowing a researcher-participant relationship based on confidence, security, and common understanding (Heyink and Tymstra, 1993). The second stage of the interview asked demographic information including who they were, how long they have worked at their firm, and in the industry. This stage also secured participant consent where needed, and other simple questions not too related to the research objective to further relax participants. The third and most important stage was to ask questions that relate to the research questions of this study. Because my research questions surround a sensitive subject, some data was obtained by using indirect lines of questioning. Asking a participant “What makes a good salesperson in this industry?”, for example, led into probing follow-on questions discussing how brokers gain manager interest and the role of research. Indeed, it allowed for themes such as research and relationships to emerge. Similarly, it became easy to ask how things are different since MiFID II, highlighting changes pre- and post-MiFID II with questions such as “How does your firm stay ahead of market news or change?” and “What has been your experience in adapting to market change?” (See Appendix B for the interview schedule). Following adequate discussion of questions and themes, the fourth and final stage of the interview was to invite further comments or questions that they felt relevant. Following the closing of any discussion that came from those comments, the interview was closed with due thanks as well as agreeing to keep communication open for future questions as needed.

3.4.2 Conducting the interviews

The exact date and time of each interview was arranged according to the preference of the interviewee to start the interview on a positive first step. Audio calls were recorded using a conference line where both interviewer and interviewee could dial into a local free number, avoiding any cost or inconvenience to the participant. Because the conference line is an online tool, calls could happen at a computer or on a phone. Using this method to record interviews is supported in the literature as less invasive or distracting for data collection (Darlington and Scott, 2002). Skype was considered as a data collection method to allow for body language data collection and analysis (McHoul and Rapley, 2001; Fairclough, 2001; McGregor, 2003), but was not chosen for three reasons. These are one: lack of reliability of the platform. Tests performed ahead of data collection showed poor sound quality and frequently dropped internet connection. Two: participants didn’t have Skype accounts. Without an account, regular calls using Skype costs money with no recording options. Three: participants wanted audio calls not video calls based on time constraints. With the difficulty in obtaining participants, audio calls with a free conference line that offered recording capabilities was the right approach to collecting the data.

Consent was obtained from signed forms delivered via email. Some participants, however, preferred to give consent over the phone at the outset of the interview. Each call had a record of consent before commencing the interview. This was due to some participants dropping out of the study before obtaining consent, some participants not returning signed forms, and the sensitive subject matter being discussed. Dropouts between agreeing to participate and the interview time happened three times. Unfortunately, these participants cannot be included as official participants in this study. It does raise questions, however, about how MiFID II has impacted their options to communicate about the industry for outsider research. One prospective participant, for example, was incredibly interested and motivated to participate, talking about the 'day in the life of a broker' but when asked to consent to the call being recorded, and that questions may include their opinion on MiFID II, they respectfully declined going further. In fact, they failed to reply to any follow up calls or emails over the course of several months. It was unclear whether they had a corporate policy not to engage in industry regulation discussions, but it is possible given the sharp change in communication and activity with this participant. Another participant was very opinionated about the impact of MiFID II, jumping in on the initial cold call to share how it's 'ruined the order of things', that 'entertainment is gone', and the 'hassle it now involves to do anything'. It was explained that consent had to be given first and that the call would need to be recorded. Though this was agreed to, after sending the consent form, the participant stopped responding to calls or emails for the official interview. It seemed that going 'on record' about their views on MiFID II was too sensitive a subject compared to a quick casual chat. It is possible that they feared being monitored by compliance officers as their calls are all now recorded. Interestingly, however, other participants that did consent to the interview call and did participate, acknowledged their calls are recorded now also. It remains unclear what the difference is between their phone being recorded and being recorded during the interview. Perhaps being part of being published swung their vote to dropout.

The choice for audio calls over video calls or in-person interviews was due the inaccessibility of participants and the subject matter. Participants were incredibly difficult to source. As described above, participants seemed very busy and hard to track down for non-sales calls. One prospect seemed perturbed that it was possible to gather his contact information and demanded to know the source. Perhaps unbeknownst to him, his name and company email address was displayed prominently on the company website, promoting his role as a likely persuasive tactic to show credibility to site visitors. Interestingly, this is not something many investment banking firms do. In fact, most firms chose to omit high ranking staff contact information on their websites to have a sense of exclusivity or of being elite. Both approaches have the same goal of showing authority and power in the industry to site visitors. On the one hand, placing the name and contact information provides a feeling of achieving direct access to 'important people' in their field. On the other, removing names or at least contact information of 'important people' provides a measure of exclusivity. From the perturbed prospect, however, he stated he had a very long tenure in the industry and had developed a good "bullshit radar" to help his success. This radar was also cited as the reason for not taking a call or participating in the study. Another less than pleased prospect said on the initial cold call: "you've come through to the sales desk, are you making a trade? If not, we're busy" and promptly hung up. These are just two examples of many experienced that show brokers, managers, and analysts take their time management very seriously, and may not be the most cordial to non-industry professionals. Because of this, taking time to have an audio call lowered interference with their daily lives than other methods. Indeed, interviews often took place with participants at their homes in the evening, at quieter times outside of typical office hours, between taxi fares, 'tube' stops, or walking around London to fit them in where possible. Video calls or in-person interviews would have required a room, setting up video recording equipment, having video chat apps like Skype installed ahead of time, and other nuances that participants simply did not have time for. In the interest of gaining access to participants, offering audio calls received considerably better response rates than other suggestions.

This study benefits from audio calls in several ways. As mentioned above, it aided the access to participants but also offered a more relaxed environment to discuss their daily roles, relationships, and opinions of MiFID II. This is because interviewer and interviewee could only hear each other. While visual appearance, attire, or body language could not be identified as a factor in how they persuade, it was possible to note vocal tone, chattiness, and other audio cues that impact persuasive communication and show sentiment, viewpoint, or emotion.

In general, interviews began more formally regarding appreciation for their participation and provision of consent. To be sensitive to participant availability, only the first couple of minutes of the interview were used to build some initial rapport with participants, as well as verbally express and over express gratitude for their willingness to be part of this study. By communicating these words up front, participants gladly gave consent to being recorded and were more open in their interview responses. Most interviews exceeded the initial 25 minute estimated interview time and went beyond an hour in some cases at the approval of each participant. Some responses to initial questions felt more structured in some interviews but as each interview progressed, they became much more conversational and relaxed. Participants shared freely their opinions, experiences, and offered insight into the way they succeed in their industry and how they felt MiFID II regulation has impacted their daily lives and relationships. In total, interviews provided about 8 hours collected data.

To assist data collection at interview stage, some level thematic discourse analysis was needed to accommodate for, and make sense of, language use differences between participants (Alvesson and Karreman, 2000; Keenoy, Oswick and Grant, 1997). Roadshows, for example, means a type of meeting to institutional brokers, but one non-broker participant described the same meeting type as an ‘ascension-day’. The goal and content of the meeting are the same, just called by different names.

3.5 Approach to data analysis

A thematic analysis was the chosen analysis framework due its structure. It offers a clear-cut set of procedures to follow when analysing data. Using Braun and Clarke’s framework (2006) across semantic and latent analysis, it was possible to describe surface meanings of words used by participants, as well as describe deeper ideas, concepts, assumptions, and ideologies that shape from the data (Braun and Clarke, 2006; Clarke and Braun, 2013).

As outlined by Braun and Clarke (2006), thematic analysis follows a six-stage process from data collection to discussion which is summarized as follows:

1. Becoming familiar with the data
2. Generating initial codes (and themes)
3. Search for themes from the coded data
4. Review themes and refine codes
5. Define themes identified
6. Write up data and discuss

An interpretive, naturalist epistemology and ontology underwrite the data analysis. This means the data was interpreted based on the interactions with each participant in their natural environment. With MiFID II being so new, it would be impossible to simulate the real-world effects of this change in a laboratory setting. In addition, a natural environment was sought due to the sensitive nature of the subject. Semi-structured interviews helped create a relaxed environment that was both practical and suitable for gathering views and opinions that are sensitive in nature. It also provided a guideline to the conversation to keep 'on-subject' without the kind of deviation that supports a grounded theory approach using unstructured interviews.

3.5.1 Data analysis procedure

Data analysis commenced even before data collection began by taking note of responses to interview invitation emails, cold calls, return of consent forms, and vocal tone during initial phone calls to set up the official interviews. Each interview was first downloaded in '.mp4' format and saved onto a secured external hard drive. To begin transcription, each interview was listened to several times, manually transcribing the audio content in Microsoft Word then uploaded to NVivo software. NVivo is a Computer Assisted Qualitative Data Analysis Software (CAQDAS) which has been shown to help qualitative research be more accurate and transparent (Welsh, 2002). Indeed, Richards and Richards (1991) argue the use of qualitative software adds rigor to qualitative research (Richards and Richards, 1991). Once in NVivo, each transcription was listened to again while following the transcription to ensure accuracy. During this process, notes taken during and after each call were added as annotations. Codes were then created from a literal and latent approach.

Coding required several rounds of iterations with different goals in mind which is consistent with a thematic approach. Conducting analysis against the research questions, for example, gives a particular lens on what should be coded or not. In addition, literal codes needed to be created to provide an overview of common forms of communication or tactics used by brokers to influence manager investment decisions. To illustrate these different lenses, it is easy to look at what participants called roadshows. Roadshows are an activity that are somewhat uninterrupted by MiFID II based on the data collected in this study. It has been, and still is, used as a meeting venue to help brokers facilitate the selling of the company 'story' to managers and investors, as well as a venue to discuss the research provided on the opportunity. This activity provides in-person interactions for the purposes of building relationships to assist toward investment transactions. Brokers use roadshows to meet managers, meet investors, showcase their client company story, and discuss the provided research. Managers use the same roadshow to ask questions about the research to the analysts in attendance while also evaluating the company management team. All references to 'roadshows' would have a literal code as a broker tactic but should also be included in a broader application toward the research questions. Using the same example, roadshows are a common venue for brokers to influence manager investment decisions pre-and post- MiFID II regulation change. It is deep seated into the culture of the investment industry with multiple roadshows happening at least twice per year when company financial results are reported. There is a difference today, however, compared to pre-MiFID II. Research costs have been unbundled from trading commissions meaning the roadshow attendees now know exactly what research has been done, by whom, how much it cost, and that everything has been legally verified prior to the meeting. These facts were not known by investors before, which adds a new layer of transparency to the transaction and additional scrutiny from the manager on behalf of their investor clients. So, while roadshows as a literal activity or practice has not changed due to MiFID II, how the roadshow takes place and the practices leading up to it have. More of this will be discussed later, but an example of how themes emerged can be found in Appendix C. To better illustrate the analysis process, the figure below showcases the steps and iterations undertaken in the initial stage of the data analysis:

1. • Initial call with interested particpant
2. • Gain consent and set up interview call
3. • Hold recorded conference call (gain consent at outset if not received signed form)
4. • Prepare and transcribe files
5. • Read all data and call notes
6. • Add call notes, annotations, anonymize
7. • Begin allocation of initial codes both literal and against research questions
8. • Start idenfying themes from the data collected
9. • Create, Edit, Adjust and Group codes and themes as necessary
10. • Write findings notes on transcription
11. • Repeat steps 1-10 for all transcriptions
12. • Compare findings and notes between transcriptions - iterative process
13. • Discuss findings in relation to each research question

Now that the participants have been discussed, how data was collected, and the method of data analysis, it is time to review the industry structure to provide context to how meaning was derived from the data. The following section outlines ethical considerations and the structure of the industry. Including industry structure provides what Geertz (1973) refers to as 'thick description' or a detailed account of culture for the purpose of qualitative rigour (Bell, Bryman, and Harley, 2022; Geertz, 1973). In relation to this study, it provides greater understanding of the longstanding hierarchy of information flow in the investment industry to add context for data analysis in chapter four. While thick description can offer insight into transferability of findings to other social contexts (Bell, Bryman, and Harley, 2022), this study does not presume generalizability outside of the investment industry from the perspective of the sell-side. Following this section, the data is discussed in relation to each research question, showcasing the themes as they emerged from the data.

3.6 Ethical considerations

Formal ethics approval was required before beginning field research to ensure this study was of minimal risk to participants and that participation would not create discomfort exceeding everyday tasks. A letter of approval was obtained that granted the ability to conduct this study, which then allowed a database of prospects to be built and used. Through outbound phone calls and emails, participants were first obtained then notified about participation consent. This included notifying each participant that their participation was voluntary, that they could withdraw at any time, that their identity would be protected, and that data would be stored in a secure location and not sold. To ensure further protection during data collection, Wi-Fi Protected Access (WPA2) encryption was used on the internet network to prevent any hacking of data. As part of this consent process, each participant was asked to sign a consent form and return it prior to their scheduled interview. In the event participants had not returned a signed copy of the consent form prior to the interview, verbal consent was obtained on a recorded conference call before conducting the interview. In instances where no consent was obtained, interview data collected was not included in the data analysis. In addition to obtaining consent, due care was also taken to ensure all participant data would be anonymised, including any client names they may have mentioned as part of their interview responses. This was done by replacing the name of the participant with a classification such as "Broker 1" or "Analyst 2". Lastly, it is important to mention that ethical considerations factored into the choice to use audio calls rather than video calls. This was to ensure that participants could participate at a time that was suitable to them, without requiring a download of a software or creation of an account prior to an interview. In addition, this helped in creating a more relaxed atmosphere given the sensitive nature of the interview questions surrounding MiFID II. Participants may have been apprehensive about talking when on camera versus their preferred method of communication, a phone.

3.7 The structure of the industry

The following section outlines the roles of each industry actor for investment decisions. As part of this, reference is made to the history of soft-dollar use to place sell-side research.

3.7.1 Brokers

As described in Chapter one, brokers are sellers of securities such as stocks, bonds, and other financial products. They sell on behalf of their own firm, and their company clients to managers on which securities are best to purchase. Sell-side analysts work with brokers and conduct research on the companies they follow. Brokers then position a company in the best light, while remaining accurate and factual to financial information. They are seen as the "eyes and ears" of the industry, the company, and are the first point of contact for a manager wanting access to analyst research (Broker 2 2019; Broker 3, 2019; Analyst 2, 2020). In many ways, brokers are the “door openers” (Broker 2, 2019; Company CEO, 2019) for the transaction, then act to “close the door behind them” (Company CEO, 2019).

3.7.2 Analysts

Analysts provide in-depth research called ‘notes’ or a ‘prospectus’ on investment opportunities and on the sell-side, work in tandem with brokers to influence manager investment decisions. Because of their in-depth market knowledge and knowledge of the company financial information, their research and insight is integral to manager investment decisions. Indeed, they are seen as an authority on the investment opportunity, with their research providing managers with the necessary data to evaluate the opportunity and decide to invest or not. As one broker expressed, analysts are the ‘stars’ in the investment process:

> “*a star analyst is a bit like a star player on a football team…they’re the ones who are the kind of box office people who help you to sell out the stadium, so if we have 20 analysts it will be about five or six of them who are kind of really experienced, highly regarded, you know best in class in their industry, and therefore crucially important…in terms of marketing the firm and marketing the firm's research.”* (Broker 2, 2019).

It is because of this that brokers are so keen to place research into the hands of managers. They know and understand that it is the research that ultimately convinces managers to invest.

3.7.3 Managers

Managers are investment professionals that handle investment decisions for their investor clients. Their core function is to buy shares. Brokers and managers know this as one broker confirms:

> *“You…gotta remember that they [managers] have to buy shares…they can't buy racehorses or cars you know…their win is just to buy shares…”* (Broker 3, 2019).

but managers still hold the keys to the investment funds, making them valuable and worth the effort to persuade for a transaction. They often carry out their own company research with buy-side analysts, but still rely heavily on brokers and analyst research to advise them.

Additional to the overall broker/analyst/manager relationship structure is the new role of compliance. While regulation and compliance has always been part of the investment industry, compliance measures under MiFID II have dictated the need for compliance officers, compliance teams, compliance meetings, compliance 'marketing' (a post-MiFID II tactic), and compliance-focused legal and accounting teams to ensure MiFID II compliance. The following paragraphs outline the pre-MiFID II relationship.

3.8 Pre-MiFID II structure

The purpose of a broker is to sell shares, to open the door for their company clients to interested managers, who in turn purchase shares based on analyst research for the benefit of their investor clients. Managers have a fiduciary responsibility to put the needs of their clients first (Erzurumlu and Kotomin, 2016), and research shows they are under pressure to consistently perform regardless of whether the investment is short or long term (Tuckett, 2011). This means managers are reliant on as much financial information as possible (such as analyst research) to make investment decisions despite already having in-depth industry knowledge. What they lack is company information that is not publicly obtainable. For that knowledge, they still need information from the sell-side to inform their decisions. In this sense, the relationship between brokers and managers is somewhat symbiotic, the broker has access to the company, along with all the financial information and analyst research that can persuade a manager to invest. Managers need the research but also control the money, so they work together and are dependent on each other for success. Managers are of course vested in knowing as much as possible about the investment opportunity before making an investment decision, which is why the analyst research plays such a key role. Communication between these actors is paramount. Previous fund management research has posited that sell-side brokers and analysts, buy-side managers and investors are part of an interactive relationship with companies offering shares (Barker, 1998). This is certainly true if all parties are ‘wall-crossed’ in order to freely discuss and evaluate the investment, but this is not true of the base relationship. The base relationship still involves knowledge asymmetry between the broker (who knows the company and has the analyst), the analyst (who provides the detailed research on the investment opportunity to the manager), and the manager (who is dependent on both to be able to make an informed investment decision). Indeed, the introduction and rise of soft-dollar arrangements between brokers and managers was aimed at reducing such knowledge asymmetry (Arjaliès et al., 2017; Erzurumlu and Kotomin 2016; Wirth 1997; Livingston and O’Neal, 1996). Soft-dollars, then, provide the relationship structure with a delivery vehicle for greater available information to assist manager decisions. In this sense, analyst research acts as a catalyst in the decision process.

As described in chapters one and two, soft-dollars or ‘soft-dollar arrangements’ involved the bundling of services to provide investment research to managers for free. In exchange for this research, managers agreed to use the broker for the transaction at a premium commission rate, covering the cost of the research on the back end of the transaction (Lins, 2003; Horan and Johnsen, 2008; Schwartz and Steil, 2002). The use of soft-dollars became an industry norm with the majority of transactions involving some level of soft-dollar arrangement (Erzurumlu and Kotomin 2016; Wirth 1997; Livingston and O’Neal, 1996). Because of this norm, managers dined at an ‘all-you-can-eat research buffet’ without the upfront cost, which they in turn could use to show new and existing clients their fund profitability. It led to other services being bundled such as computer hardware, hotel bills, and extravagant marginally research-oriented ‘business trips’ (Arjaliès et al., 2017) as one broker explained:

> *“In the old days brokers used to take fund managers racing and out to dinner and lunch and skiing and even more exotic things.”* (Broker 3, 2019).

With fewer regulations, though research was paramount in the decision process, the social aspect of the relationship between brokers and managers played a heavy role in ensuring managers transacted with specific brokers. Formal meetings still took place, industry norms such as roadshows still happened, but brokers and managers could meet for a coffee, a drink, or take a trip to loosely talk about an investment opportunity without having to wall-cross which is made public. This ability to have social interactions with managers assisted brokers before taking on new clients to gauge warmth toward a transaction while giving managers a glimpse of a possible good deal for their investor clients.

The social aspect of this structure is significant. It relates to feelings of trust which is attained over time. As one broker commented in frustration about the new regulations:

> *"You know human nature is such that you only like dealing with…you deal with people who [you] trust, you don't deal with people you don't know, or you try not to, you know, you'd rather deal with someone you know than someone you don't know."* (Broker 3, 2019).

In a very general sense pre-MiFID II, brokers used the allure of free research to persuade managers, wrapped up in fringe benefits that didn't get reported as hard money costs. This gave managers plenty of ammunition to keep and solicit new investor clients for their funds. Brokers' social relationship with managers meant everyone could deal with people they knew and trusted. With this in mind, it is time to analyse the data against the research questions and examine what has changed in broker persuasive methods and their relationships with managers pre- and post-MiFID II.

Chapter Four: Data analysis

The purpose of Chapter four is to analyse the key tenets of persuasion used by brokers to influence manager investment decisions pre- and post-MiFID II regulatory changes in the investment industry. The analysis of data in this study is guided by the following research questions:

b. How have persuasion tactics been utilized by brokers to influence manager investment decisions in the investment industry?
    a. In what ways are peripheral routes to persuasion (in particular, confidence, source credibility, rapport, and social proof) used to prime managers for decisions through sell-side research?
    b. How does sell-side research act as the key influencer in manager investment decisions?

c. How does MiFID II challenge the status quo of the methods of persuasion used by brokers toward managers in the investment industry?
    a. In what ways are the existing social norms and practices of the investment industry being forced to change as a result of MiFID II regulation change?
    b. How are MiFID II fears legitimized by the opinions and experiences of brokers due to the history of soft-dollar usage as a persuasion tactic to influence managers?

d. In what ways have methods of persuasion used by brokers toward managers been impacted by the inauguration of MiFID II regulation change?
    a. How has MiFID II facilitated changes in the use of confidence, source credibility, rapport, and social proof through common channels of communication between brokers and managers?
    b. What practices are starting to replace soft-dollar arrangements as the vehicle for brokers to provide sell-side research as a key influencer for manager investment decisions?

In analysing the data against each research question, it is helpful to remember the manner in which the data was collected and encoded, as well as the participants and approach to analysis. For this research, data was collected in the form of semi-structured interviews using audio conference calls. Participants were sourced predominantly from the London area of the UK using purposeful sampling. The participant pool included brokers, analysts, corporate brokers, corporate analysts, and one company CEO currently working with institutional brokers and analysts. All participants were heads of their department with considerable industry tenure barring one analyst with just a few years' industry experience. This shows that industry longevity and longevity of relationships are important in the investment industry. A summary of participants is below:

Participant Role	*Gender*	*Age range*	*Years in industry*	*Location*
Broker	Male	50+	20+	UK
Broker	Female	42-49	20+	UK
Broker	Male	50+	20+	UK
Corporate Broker	Male	42-49	15 - 19	UK
Analyst	Male	42-49	20+	UK
Analyst	Male	42-49	20+	UK
Analyst	Male	42-49	15 - 19	UK
Analyst	Male	42-49	20+	UK
Corporate Analyst	Male	25-32	< 5	UK
Company CEO	Male	42-49	15 - 19	UK

Interviews were recorded using a conference line that provided a free local number for both interviewer and interviewee. It is important to note that participants freely agreed and chose to dial the conference line after accepting the invitation to be interviewed. A thematic analysis was the chosen data analysis framework following Braun and Clarke's structure (Braun and Clarke, 2006). Each completed interview was first downloaded in '.mp4' format, then listened to several times before transcription into a written document. Once transcribed, interview content was uploaded to NVivo software along with interview notes to begin coding. Codes were then created using the software in both a literal and latent approach. The following sections provide a detailed analysis and discussion of findings against each research question and sub-question.

4.1 Analysis of research question 1

1. *How have persuasion tactics been utilized by brokers to influence manager investment decisions in the investment industry?*
    a. *In what ways are peripheral routes to persuasion (in particular, confidence, source credibility, rapport, and social proof) used to prime managers for decisions through sell-side research?*
    b. *How does sell-side research act as the key influencer in manager investment decisions?*

To answer this question, it is the literal codes and conversation spurred from the interview questions that offers insight into persuasion methods used by brokers to influence manager investment decisions. Taking each element of the question in turn, the following section looks at the specific tactics and methods of communication used by brokers, followed by analysis of peripheral routes and how they are used based on the themes that have emerged from the data. The last section under research question one showcases how sell-side research acts as the key influencer in manager investment decisions.

"How have persuasion tactics been utilized by brokers to influence manager investment decisions in the investment industry?"

The first thing to note about persuasion tactics is that communication methods used pre- and post-MiFID II in the investment industry do not differ a whole lot. Nor do they differ from most industries although there are a few cultural practices specific to brokers such as soft-dollars and roadshows. From the interviews conducted, participants noted scores of tactics used to communicate with and influence managers. This includes meetings with analysts and the use of research. They included: casual chats over coffee, a drink at a bar, meals (lunch or dinner), networking, referrals, phone calls, emails, internal meetings, news meetings (first thing in the morning), follow up calls, word of mouth referrals, press, inbound calls, company valuations, company story pitching, roadshows, internal and external formal meetings, retainers, and placing research. The most frequent references included the company story, formal meetings, and 'research' including additional terms such as forecasts or notes and valuation, making research the most frequently referenced tactic across all interviews. One other literal term that was mentioned more frequently included new from the Regulatory News Service or (RNS). This last set of references to news is interesting because the Regulatory News Service (RNS) itself is not a tactic, it is an information service approved by the Financial Conduct Authority and operated by the London Stock Exchange. When examining the data, while the RNS was an unexpected as a finding, it became apparent that the RNS was a theme in and of itself (an example of how the RNS emerged as a theme is included in Appendix C). It is important to point out that the RNS is not a tactic like a research note but it does impact broker and analyst communication with managers. Both brokers and analysts utilize it, and managers can access it with any publicly available information. Brokers and analysts plan their day around the RNS allowing it to influence their communication tactic type, their research response approach, their opinions presented to managers and ultimately, their relationships with managers.

4.1.1 Theme: Regulatory News Service (RNS)

The RNS is a vehicle through which official communications begin in the investment industry. It is operated by the London Stock Exchange (LSE) and provides daily news including details on new share issuance, results publication, profit warnings, take-over bids, competitor company news and more. It is the reason that brokers, analysts, and managers begin their day so early, to prepare and be ready for calls, meetings, or roadshows as soon as possible whether it be positive or negative news. As one broker commented:

> *"We get to our desks up to around 6:45 a.m...the reason we're in so early is that the company announcements [from] the regulated news service where quoted companies release everything from results to acquisitions to profits warnings,*

> *anything relevant, they're all released at 7:00 a.m. London time in the UK markets so and obviously the news from companies is regulated so it has to come out through the stock exchanges RNS regulatory news service…a company can't just issue an email and say 'right we're not going to make our profit numbers' it has to be come out through the RNS so they come out at 7:00 predominantly obviously they can come out…at other times during the day but they tend to be focused around the early part of the day at around 7 a.m. and obviously we need to be there when company news comes out, so from 7:00 a.m. we start to digest what the news of the day is"* (Broker 1, 2019).

Even analysts rely on the RNS as the start point of any given day:

> *"In the office by 0700 to check company RNS announcements. Morning meeting 0730. Balance of the day spent…building company models, writing research, talking to investors (if wall-crossed)…pitching of new business (IPOs, brokerships)."* (Analyst 4, 2019).

Because of this, the RNS regulates news flow and communication times which has the ability to set the tone for the entire day. When speaking with participants, each and every one referred to the RNS as the main start point of their day and how it impacts their daily tactics or activities with Managers. As another broker shared:

> *"I mean, it's quite interesting…you don't know what's going to hit you in the morning. It could be a profit warning from a client company, might be takeover bid suddenly launched unbeknownst to you and…there's sort of a reaction to any news events first thing in the morning and then the day moves on to either dealing with those or a lot of meetings..."* (Broker 3, 2019).

Another broker shared their account of how this morning news impacts the day, impacts the type of communication they provide, impacts the opinions on existing research notes to managers and ultimately, their activities with managers they sell to:

"The first sort of 2-3 hours of the day are spent dealing with company news and imparting our views to…our client base, so our client base would see us as the leading commentator in that stock…a lot of our clients would be interested in what our analyst reaction is to [a] warning and how much [it] is changing profit numbers by [or] forecasts by." (Broker 2, 2019).

To illustrate an example, if a broker is working with a company and there is a profit warning (something companies are required to disclose if they are going to miss forecasts by 10% or more) then following the announcement on the RNS, the broker and analyst will come up with a strategy of communication whether it be a meeting, phone calls, emails or opinions on the research note to influence the manager. As one broker shared:

"So today there was a profits warning by a company that we follow…so our analysts at the 7:25 meeting, he's already by that point, he's already spoken to the company to their finance directors who've got details of the warning and he talks us (brokers) through [it] and publishes…his changes to his estimates, his view of the stock [and] any change to recommendation etc, so we're in a position then to impart that to our clients (managers)." (Broker 2, 2019).

Here the tactics included internal meetings and phone calls with the company to have the 'right story' in place first, followed by an update to the research, then phone calls with the manager to provide an update. If this profit warning results in a significant downgrade, where stock value declines alongside analysts' negative view or value of the stock, then a broker might choose different tactics as another participant pointed out:

"When there is a downgrade, this is when the fund managers are most reliant on the brokers…that is…news flow and…explanations. [We are] arranging those meetings with the company urgently and also it's up to us to get the reasons of what has happened why it's happened what they're doing to get round this and if we can give them as much news flow and communication. This is how you

stop fund managers panic selling…you've got to phone them you've got to get them in front of the management team and you just gotta kind of work through…but that's when you really come into your own by spending that night before, and we could be up till God knows when, trying to find out what happened…what [are] they doing to… to rectify it and giving us a story to ring up the next day to make that fund manager either believe there's a future in the company and take a longer-term view or try and manage a quick sell off" (Broker 1, 2019)

Here the tactics are slightly different, the first is a request for a meeting in person with the company, getting the facts and then to come up with and present a story to managers via phone calls to suggest either to hold or sell the stock. When probing a little further into this, the broker explained:

"If there is a profit warning and the share price dives say 30 40 percent, fund managers are not reluctant to sell and lock in those losses…they want to understand the problem but they don't particularly want to sell out immediately especially if there is a good reason for [it] … and quite often there's obvious reasons why a company profit warns or doesn't meet their forecasts it doesn't mean to say the company is doing very badly and it's going to stay on that track it's usually a blip or there's a problem or it's a loss of a client but they've got client winds down the track so there are plenty of ways round but if they're not communicated to and they feel they don't know what's going on, they're far more likely to sell." (Broker 1, 2019)

What is interesting is that though the tactics differ slightly, the emphasis in both scenarios is on providing as much communication as possible, in a timely manner, all in response to industry news on the RNS. Following the morning news and dealing with that news, the day moves along with many internal and external meetings, phone calls, emails, press, ongoing news, and publication of research toward the goal of selling shares to managers. A specific type of meeting or set of meetings that are inclusive of a wider audience than just brokers and managers is a roadshow. The goal with roadshows is the same as any other meeting, phone call, or email communication, to sell shares and get a manager to make an investment decision. Due to the fact that roadshow meetings are concentrated at certain times of the year, and because of the emphasis placed on roadshows by participants as a useful venue, it too emerged as a theme for how brokers persuade managers. The section below takes a more detailed look at roadshows and how they are used as a tactic to influence as well as to develop relationships with managers.

4.1.2 Theme: Roadshows

Referenced fewer times but emphasized more by participants during interviews was the use of roadshows. As described in the previous section, roadshows are an activity that provides a meeting venue to help brokers facilitate the selling of the company 'story' to managers and investors alike. It is also a venue for managers to ask analysts questions and generally discuss the research provided on the opportunity. This activity provides in-person interactions for the purposes of building relationships toward investment transactions. Brokers use roadshows to meet managers, meet investors, showcase their client company story, and discuss the provided research. Managers use the same roadshow to ask the analysts in attendance questions about the research and allow investors to join them in evaluating the company management team.

> "*We will organize two sets of roadshows…and communicate to their main shareholders their news and their…how they're progressing throughout the year and whether they are meeting their forecasts which are in the market"* (Broker 1, 2019).

The same broker goes on to share how the roadshows provide ample means to build a relationship:

> "*When you're roadshowing…when you take the company on results round the market to see their shareholders you're personally sitting in those meetings and you're meeting all their investors and once they've met you they're more willing*

to take phone calls so you kind of work your way in just by meeting them and talking to them and following up calls after a meeting." (Broker 1, 2019).

The theme of relationships will be discussed later but it is important to note that roadshows are deep seated into the culture of the investment industry. They are focused during specific times of the year, where each industry actor is expecting a parade of upwards of 50-60 meetings around the time company results are published or when new companies have another year of financial data that the broker can use to present to a manager. The manager then has the opportunity to scrutinise the research, meet the management team, and ask questions about the investment before making a decision. The weight of a roadshow for in-person meetings is well illustrated here:

"Conventional thinking is that face to face [roadshows] is preferred…we're so deeply entrenched in the way we do things." (Research analyst 2, 2020).

Roadshows are focused predominantly in London where the majority of UK financial institutions are located, but other meeting hubs occur in Manchester and Edinburgh, providing additional opportunities for brokers to expand visibility of a company to managers and investors outside of London.

"We take them out on to Manchester and Edinburgh and wherever where there are regional fund managers who don't get on the normal roadshows in London." (Broker 3, 2019)

Interestingly, time is also a key factor with roadshows as one analyst explained:

"So usually [a] roadshow…it could be just in one place…have a week of meetings in London and after that you have feedback from investors, QA with the manager and you might arrange follow-up meetings, site meetings etc…[but] there's two companies in London that will provide ex-police motorbike riders privately now they've retired. They'll take people round

roadshows, including the company and the people…round on these motorbikes to get round London as quickly as possible. So often you've got 20 minutes, three meetings [and] you've got to get from Mayfair to the City or whatever or however it's been scheduled…" (Analyst 5, 2019).

The theme of roadshows as a relationship catalyst permeated interviews which leads into another key theme, the theme of relationships.

4.2 Analysis of research question 1a

The following section looks at the theme of relationships and more specifically, research question 1a, which is:

"In what ways are peripheral routes to persuasion (in particular, confidence, source credibility, rapport, and social proof) used to prime managers for decisions through sell-side research?"

4.2.1 Theme: Relationships

Research shows that utilizing relationships can influence persuasion and decision making. This idea of relationship marketing was borrowed by marketers from the field of psychology for gaining market success through building positive and lasting relationships with customers (Berry, 1995; Berry, 1983). In addition, relationship closeness has been implicated in one's willingness to purchase a good or service (Kanate, 2010). What emerged from the participants in this study was the unanimous response that peripheral routes help build and maintain relationships needed for market success. Interestingly, each participant also indicated that no one specific route was better than or favoured more than the other. In many instances, participants grouped their responses about peripheral routes to persuasion such as 'rapport' and 'credibility' together in a kind of symbiosis toward the building of a relationship with the buy-side for the purpose of ongoing business transactions over time. One tenet of the data not explicitly called out as a route to persuasion is the way in which confidence, credibility, rapport, and social proof are viewed as a necessity to build trust. Research shows that trust is a component of credibility, for example, as well as a function of relationship closeness (Shan, 2016; Li, 2012; Petty and Wegener, 1999;

Sekhon et al., 2014; McKnight et al. 1998). This section, then, will first reference the current literature around peripheral routes, then explain how participants value and use confidence, rapport, credibility, and social proof to build relationships. References to a post-MiFID II impact on these relationships will be discussed later in response to research questions two and three.

4.2.2 Peripheral routes

As discussed in chapter one, peripheral routes to persuasion such as confidence, source credibility (credibility), rapport, and social proof are a precursor to more long-lasting persuasion through the central route of sell-side research. This dual process approach to persuasion is particularly pertinent to the investment industry because both brokers and managers have specialist industry knowledge, making it more difficult to persuade based on peripheral routes alone. As mentioned in chapter one, confidence acts a persuader or influencer and may be defined as the perceived confidence or expressed authoritative expertise of the broker (Peterson and Pitz, 1988). It is supported in the data from this study in two ways: one, confidence from being knowledgeable of the market, manager, or company, and two, confidence in the way brokers engage managers and present a clear and concise story to gain interest. The result of this use of confidence permits the placement of research which will be discussed in research question 1b.

Source credibility (credibility) describes the characteristics of a person or message that influences the acceptance of that message in times of decision uncertainty (Hovland et al., 1953). People tend seek out credible information from sources to learn, gain support, feel empowered, or gain confidence in making a decision. Indeed, credibility is a well-known antecedent in financial literature for effectiveness in influencing a decision (Mercer 2004; Mercer 2005; Rogers and Stocken, 2005). In the case of this study, brokers utilize source credibility through perceived industry expertise (market knowledge, confidence), a history of results, their experiences with managers (relationships) and more importantly, analyst research.

The concept of rapport refers to the positive dyadic interpersonal interaction between two actors (Nelson, Grahe and Ramseyer, 2016; LaFrance, 1990). As a tool for effective persuasion it differs from confidence, source credibility, and social proof as it relies upon the dyad. The data shows that maintaining broker-manager rapport is paramount especially with brokers as a gatekeeper to analysts. Participants outlined rapport as the ability to engage with new client companies and managers to open the door and start a relationship necessary to close an investment transaction, yet often referred to it more as an intuitive personality trait than an activity.

Social proof as a persuader is predicated on people needing proof before making a decision without spending an inordinate amount of time researching it first (Cialdini, 1993). In the context of this study, social proof is utilized by brokers through following what peers are doing in the industry (Deutsche and Gerard, 1955). This could include what others are doing with MiFID II compliance measures, as well as promoting themselves as industry leaders with star football-player-like analysts. Interestingly, while only two participants referred to websites as a source of social proof, brokers and analysts also utilized aspects of social proof and credibility together around industry longevity or past success.

In applying these peripheral routes to the relationship theme, they act as a method to start a relationship, place sell-side research, introduce analysts to managers, or to build relationships over time. This is important because the investment industry is viewed as a 'people business' that is reliant on interpersonal interactions and relationships. The following paragraphs, then, look at how brokers (including analysts) see, understand, and utilize peripheral routes together in building relationships with managers, all toward the end goal of influencing manager investment decisions.

4.2.2.1 Rapport

Though mentioned last, rapport should be discussed first because it is an opening tact used to build a relationship with a manager. Before MiFID II, a broker would build rapport in a number of ways outside of the phone calls, emails, official meetings, and roadshows. Coffee meetings, casual chats, lunch, dinner, bars, even skiing were all social venues to get a relationship with a manager before offering research for free in exchange for trading commissions. The data showcases this in reference to pre-MiFID II days where compliance and regulation were more relaxed, acknowledging the fact that more insider knowledge leakage happened as a result. As the following outlines:

> *"Well in the old days brokers used to take fund managers racing and out to dinner and lunch and ski and even more exotic things."* (Broker 3, 2019).

> *"There is a real system of how you communicate with fund managers now and that day of meeting for a drink in the pub and having a little chat and seeing where they are those days are over."* (Broker 1, 2019).

> *"Compliance procedures have been much elevated…now it's very tight governance…very tight, it was looser a few years ago and therefore more insider information leaked out."* (Broker 3, 2019).

Interestingly, only a few references were made to cold calls, mainly in relation to how a new broker would start to introduce themselves to managers, likely before any social meetings would happen or without being introduced by an industry friend.

> *"The way I did that was age old cold-calling fund managers and trying to [in] any way [to] get [them] on the phone…So a new salesperson would either be an assistant to an established salesperson and back up their phone calls until the relationship is trusted because they've heard from them several times and they've spoken well on the phone and answered all the questions and given them that fund manager what they need in the way of information and you just slowly build those relationships yourself and that's how I did it, and also when you're roadshowing…you're personally sitting in those meetings and you're meeting all their investors and once they've met you they're more willing to take phone calls so you kind of work your way in just by meeting them and talking to them and following up calls after a meeting."* (Broker 1, 2019)

Rapport in this case started with a phone number and a name, leading to further conversations, a meeting and eventually, roadshows to build a relationship. Participants, however, much preferred being introduced by a friend or peer to build rapport:

> *"Often you're introduced…there'll be more casual introductions where you meet socially…so it's just general networking I suppose and generally [you] get to know them a little bit, find out what they're interested in and you can show them the deal casually and talk about it quite casually when you're with them and broach it from there, depends on the person."* (Analyst 5, 2019)

and how being friends (having developed a relationship over time) is particularly advantageous to influencing manager investment decisions as a 'better' broker:

> *"Better brokers are ones that know their fund managers well, you know they're friends with them, they know how they think…what they like.* (Broker 3, 2019).

In a pre-MiFID II landscape, then, the idea of building rapport with managers expands beyond making phone calls and providing the company story before securing a meeting. It is funded through social interaction which bleeds into more concrete business relationships. As will be seen, the kind of social interactions allowable today, and therefore the type of communication and relationship brokers and manager have today, are considerably different under MiFID II.

4.2.2.2 Confidence

How brokers use confidence in building relationships varies greatly in the investment industry, but it begins with a perceived confidence. This is illustrated in a reflected 'self-view', almost as part of a broker's personality:

> *"I think the basic sort of commercial skills that's basically a salesman of any product has i.e., authority, knowledge, diligence, a feeling by the client that they're trustworthy and the ability to sell the story, and the ability to persuade a client. You know, that the shares are cheap or dear or that they should go for the IPO…[brokers have] a touch of flair…[they're] likable…affable…capable of*

having the sort of engaging personality that clients would be interested in speaking to." (Broker 1, 2019).

As well as the confidence that comes from being prepared, knowing their market, and knowing their potential client (manager):

> *"We need to persuade the client that that issue [shares] is worth looking at, so the salespeople (brokers) will ring up a client, simplifying this really up…so we [say] 'look I think you should take a look at this issue, very strong management team, I've seen them myself, I've known them for a long time, I think you'll make money out of the shares, can we come around and see you about it?' you see you've gotta be kind of assertive, pretty sure of yourself, you know pretty sure of your story, be on top of the story, but be the sort of engaging guy that a client will take a meeting from…[then] we'll organize the meeting, we'll take the management of the company around to see the prospective client and the management will present their story."* (Broker 2,2019).

This sentiment of feeling confident and prepared with a concise and compelling story to get in front of managers starts with a phone call to get the meeting, knowing that it is the in-person meeting that will help build a relationship toward an investment decision:

> *"[Managers] get on the phone like 'who are you? we don't really want to hear from you' or you'd have a window of about 30 seconds to say 'I've got this company it's X market cap it's doing this' you'd have to put [over] a very compelling story. If you sounded like you made sense, and it sounded something that appeals to what they were looking at they would maybe agree to take a meeting."* (Broker 2, 2019).

Interestingly, another broker mentioned that in order to be confident in presenting a compelling story, they have to know the manager, have a relationship, be credible, and know what the manager's investor clients are looking for:

> *"We'll know exactly what investor is looking for…so if it's a great story…we would speak to them, we would tell them the story…the fund managers have very limited time they see hundreds and hundreds of companies a year and they expect us to bring them a company of a certain standard so your company builds a reputation of not taking absolute nonsense to them and you build that up by you know years of knowing that fund manager."* (Broker 1, 2019).

The same is true of their perceived confidence by managers. Though managers have specialist industry knowledge that makes using knowledge asymmetry more difficult, some knowledge asymmetry still exists. This makes managers reliant on brokers and analysts for information. Indeed, research shows that analysts increase knowledge flow through collecting, writing, and sharing data about a company's performance (Ramnath, Shane and Rock, 2006). Brokers are a gatekeeper to analysts, investment research, and therefore this information flow. Brokers also have a reputation as the face of the industry. Managers look to them as being the authority on a stock as the following outlines:

> *"The first sort of 2-3 hours of the day are spent dealing with company news and imparting our views to our client base…our client base would see us as the leading commentator in that stock…we're the kind of front end of servicing the client base if you like."* (Broker 2, 2019).

As seen above, being able to be compelling and concise comes from feeling confident in what they are saying is based upon company, market, and client knowledge. This kind of confidence is the reason for the early morning start and the review of the RNS, for internal meetings with analysts before they begin communicating with managers, and it is intertwined with other peripheral routes such as credibility from having a good reputation in the market. According to research, this confidence will increase over time as experience increases also (Pulford and Coleman, 1996).

4.2.2.3 Source credibility

In many instances, participants used ‘credibility’ and ‘trust’ interchangeably as they described their importance to the industry as well as to them personally to assist them in placing research:

> *“You've got to get trust up close to both of them (manager and company), if they (managers) think you're spiv or I'm making things up then largely they're not going to deal with you…If you know human nature, it’s such that you only like dealing with (pause) you deal with people who you trust, you don't deal with people you don't know*.” (Broker 3, 2019).

which is also felt by analysts:

> *“It’s all about face to face contact. You can call and email until you are blue in the face and get nowhere. It is critical to find a way to meet the manager, get to know what he likes, win his trust then take it from there”* (Analyst 4, 2019).

> *“The whole industry is built on credibility and trust, so they (managers) need the confidence (in the broker and analyst) that we know and understand the company well.”* (Analyst 2, 2020).

The idea of being deemed credible can make or break the ability to have relationships with managers.

Additionally, one way brokers have earned increased credibility is when something bad happens. As mentioned earlier, it is not always smooth sailing. Sometimes stocks fall which could be the result of a profit warning or downgrade. How brokers handle their communication with managers during the times they are most reliant on the sell-side can earn a lasting credibility for future investment deals:

> *“I think that is more important than how you handle yourself when things aren't going badly because it's fundamentally important to how you maintain your*

> *credibility and that trust with the client. So the client is grown up, they understand that there are risks associated with equity investing, they ask only that everything you provide is in good faith and is well considered and not spurious, and they will accept that there are lots of things that are outside the control of the company let alone the analysts and so I think manning in that situation it is probably more important to maintain more regular communication both with the company involved and the client and to ensure that they are still getting real-time assessments on the what this change of circumstances means."* (Analyst 2, 2020).

Making a difficult phone call in a timely manner and having a story backed by analyst research are just some ways that these communications add future credibility. They also bolster their relationship with managers. What is interesting is how MiFID II has impacted the way brokers (and analysts) utilize credibility as part of their relationship. As will be seen later, the role of research has actually increased in importance post MiFID II, making verbal communications about credible research more impactful than pre-MiFID II.

4.2.2.4 Social Proof

The last peripheral route to examine is social proof. This is hard to separate out on its own as it is not used by brokers in the same way as other industries. To explain this, social proof infers that a person is more likely to act if they see others doing it (Yang and Kraut, 2017). The social proof literature often references the need for website reviews, but this applies more to B2C transactions to influence the purchase of an online product (Amblee and Bui, 2011). Only two participants mentioned their websites as a tactic to gain interest in their services, with others discarding their website as nothing more than a brochure. This is because they spend more time discussing credentials as a means of social proof on calls or in face-to-face meetings:

> *"The website serves as an online brochure, [there's] nothing in that…we have a face-to-face meeting really…[we] explain a bit about our approach and our*

credentials, we would then follow up with kind of a further meeting." (Analyst 3, 2019)

In fact, in building the participant pool, a lot of time was spent on investment industry websites gathering information and almost unanimously, their websites felt out of date, were poorly built, provided a less than intuitive user experience, and had buried or hard to find information about past successes. Most sites omitted contact details outside of a general 'contact us' form or main phone number. It was very clear that for the majority of brokerage houses, websites were not used by to bring in business. This added to the difficulty in gaining market access.

Social proof, however, was evident alongside credibility and confidence in how participants referenced their companies as industry leaders, or their description of the type of client they take on, or their history of results, or a reputation for success in specific types of industry sectors. This is because they know what manager will be interested from such knowledge:

> *"One thing about [us] is that we are very picky about the clients that we take on…we've been quite successful in IPO'ing businesses so…we're quite strict on the companies we take on and we're not really interested in taking companies just to get that fee if we don't feel that we can't support them in the aftermarket or if we can't raise that money for them. So we have a very good idea what we know we can sell…we usually win business through word-of-mouth we will have a very good idea who we know, who we think will be interested in that story so we will…have a running target list of…who we think will be interested…we try and avoid taking companies that are very very difficult to broke...or [if] we believe it's not [in] a sector we're strong at."* (Broker 1, 2019).

One thing to note based on the data is how the need for peripheral routes such as rapport and credibility have not changed pre- or post-MiFID II. That is to say, the need for these tenets to be part of the relationship between brokers and managers is still necessary in a post-MiFID II landscape. The relationship itself, however, and the manner of communication for relationship building as a theme has been impacted by the regulatory change. Discussed in more detail under research questions two and three, participants referenced the use of soft-dollars such as ‘free’ research or ‘trading commission volume’ as well as specific references made by brokers and analysts on how MiFID II has negatively impacted their relationships with managers. This included making their jobs more tedious, tricky, long-winded, or more difficult.

Another form of social proof will be discussed later, but it refers to the way in which brokers and managers have conformed their behaviours following MiFID II. If anything, it is more conformity than social proof. The way in which managers have heard about the penalties for not being compliant, for example, has led to their expectation of being told on a call that they are being recorded, or that they cannot meet socially or accept anything over a specific value listed on a gift registry. This kind of social proof is not about how brokers influence managers, but how regulation change has influenced brokers to comply and conform to new industry standards. The way these trickles down to managers, though, is in presenting their compliance measures upfront during initial phone calls or meetings.

As can be seen from the data, each of these peripheral routes are used as positioning tactics for brokers to solicit managers and new company clients which in turn feeds the relationship with the manager. Purposely, this study has focused only on how these peripheral routes are used as primers to place research and not in relation to sell-side research itself. This is not because brokers do not utilize peripheral routes like credibility through their analyst research, quite the opposite. In fact, brokers are bolstered in their sense of confidence and credibility by having analysts involved in their relationship with managers, and analysts know it. Analysts are viewed as the industry experts, and it is their research that brokers rely on to support ‘the story’ to persuade managers.

4.3 Analysis of research question 1b

The following section, then, is focused on research question 1b, which is:

“How does sell-side research act as the key influencer in manager investment decisions?”

In answering this question, the following section is split into definitions and themes to explain how research influences manager decisions. From the data obtained in this study, research persuades in various ways. Firstly, it is an in-depth financial document that has been legally verified. This means managers can trust the content as being accurate above and beyond any phone call, email, or meeting with the broker. Secondly, it comes from a credible source, namely, the analyst. Indeed, credibility grows by having many analysts covering a firm which adds to information they already have, influencing their decision (Rao, Greve and Davis, 2001; Doukas, Kim and Pantzalis, 2008). It therefore behoves a manager to make decisions based on research from analysts who they view as the most credible, authoritative, and industry-leading. Thirdly, research informs the story. The story is one of the first things a broker presents to managers during initial broker-manager communications to secure a meeting, but as the data in this study shows, analysts will have already performed in-depth analysis and modelling on that company, influencing the company story from the outset.

Soft-dollar arrangements will also be mentioned in response to this question as this is the pre-MiFID II delivery vehicle for research. Because MiFID II has already taken effect, soft-dollars did not emerge as a theme but is discussed and referenced as a tactic during the theme of relationships and research. The research aspect of soft dollars will be discussed below. The idea of the 'story' will also be examined insofar as it relates to the role of research in developing the overall story used in the investment process. The reason the story, or a narrative, will be included in response to this research question and not earlier is because the story is informed by analyst research. It is analyst research that impacts the summary story brokers present to managers via a phone call to open the door, and it is analyst research (as part of that overall story) that is discussed in meetings and at roadshows before a decision is made. Research then, underpins the story from the beginning tactics used by brokers to the close of the investment decision.

4.3.1 Defining research

For the purposes of this study, research is examined at in its entirety rather than one or two specific pieces of financial information contained within it. This is because there are many ways an analyst may choose to present a company to a manager with different models and an investment recommendation. The type of asset class may also impact the chosen model, such that the combination of asset and model that appeals to one manager may not appeal to another. Combining research into a whole package overcomes asset, model, and manager differences. Similarly, each company that the analyst is writing research on may require a different financial model depending on their industry, company stage or the type of research note being written. Monthly investment opportunity research note recommendations, for example, are likely to exclude the kind of detailed financial information needed for research written as part of a new IPO share issuance. Research that is written for a new IPO can take a lot of time and is costly for companies who lack the financial or legal teams necessary for the kind of documentation required for going public. Though companies provide annual reports and other financial documentation to brokers and analysts, it is important to note that analysts often re-do the financial reporting for a company that has succeeded in getting the brokerage interested enough to write research on them. The reason for this is two-fold, one, it ensures that what the analyst is writing is accurate and two, that brokers feel confident that the information is credible before presenting it to managers. Indeed, participants noted that this 're-do' is part of their due diligence before even taking on the company as a client:

> *"We do a lot of due diligence, and we allocate an analyst to completely strip the company of its numbers and do their own model…Before we take on a company, we've got to know it back to front."* (Broker 1, 2019).

There are also other reasons why brokerage houses carry out this kind of research for share issuance instead of the company itself, namely: cost and compliance:

> *"Companies don't for legal reasons make forecasts…they [would] have to have a huge amount of accounting and legal expenditure on making one so they don't bother…we are the only people on behalf of the company [who] will make a forecast…the fund managers will [then] look at our notes with our forecasting…so the forecast that we put out is quite important."*

(Broker 3, 2019).

Research, then, is the combination of company financial information (company annual reports such as earnings, profit and loss, balance sheets, cashflow statements etc, management, client, and supplier information) and the analyst reports (such as valuation, forecasts etc.) along with their investment recommendation. Now that we have a definition of research, it is important to understand the different types of research analysts write.

4.3.2 Theme: Research

Research was often referred to by participants as a type of 'note'. These notes contain in-depth accounting information and financial modelling for the investment opportunity that is provided to managers. It is carefully word-smithed and includes the story that brokers have already presented in a condensed form prior to its placement with the manager. Notes can be a 'reaction note' to the RNS in the morning, a 'maintenance note' for ongoing existing investment deals or opportunities, a new 'IPO' or 'share issuance note' that brokers are seeking to freshly sell, 'monthly opportunity notes' from industry or sector coverage that brokers will sell monthly, or 'company notes' that are a follow-on piece of research from a new IPO or share issuance note. Each of these types of note include detailed financial information that may range from 30 to more than 500 pages in length. One thing to point out is that reaction notes tend to have more opinion of the analyst in them than other types of note and are addendum to IPO, share issuance or company notes. For example, if there is a fluctuation in the share price of a recent IPO, the manager will be interested in the opinion of the analyst as to why. As shown earlier, managers look to the broker and analyst as the "leading commentator" of the stock (Broker 2, 2019). The manager then, seeks knowledge from the analyst to help explain the fluctuation. For the purposes of this research, all note types will be referred to as research. Post-investment research note types such as explaining profit warnings or downgrades are not the focus of this analysis. To understand how research has historically been used to influence manager investment decisions, it is helpful to understand the vehicle used for its delivery. A brief summary of soft-dollars follows to add context to why research is so prevalent as a decision influencer tool in the investment process.

As described earlier, the pre-MiFID II relationship between brokers and managers included a research delivery vehicle called soft-dollars or 'soft-dollar arrangements'. Soft-dollar arrangements bundled services to provide investment research to managers for free. In exchange for this research, managers agreed to use the broker for the transaction at a premium commission rate, covering the cost of the research on the back end of the transaction (Lins, 2003; Horan and Johnsen, 2008; Schwartz and Steil, 2002). Because research was bundled, brokerage houses had large research departments, full of analysts, following many companies, justifying the internal cost to meet the end goal of securing transactions with managers. Analysts were often introduced to managers socially, as well as to raise their profile as an industry authority to influence the investment process. In this regard, a massive amount of value is placed on analysts and their research as a tool in the broker arsenal. The data from this study shows that participants unanimously referred to their analysts and analyst research as one of, if not the most important aspect in influencing manager decisions.

In addition, the social aspect of soft-dollar arrangements should not be overlooked. Analysts who interacted with managers and their investor clients obtain greater client knowledge. This client knowledge aids the scripting of their research so that it appeals to their needs. As one participant explained:

> *"We are used to working with…managers and trying to identify best-in-class funds…we get out there and talk to [managers and] investors…you know, [give] our best ideas, [learn] what they're thinking, what they're investing in, and you know…it gives us a great boost in terms of the intelligence they provide us with…then we help them…with our best ideas and we add some conviction."* (Analyst 1, 2020).

The same participant goes on to say that successful analysts take what they learn from that exposure and use it in how they write their research:

"We have the luxury being able to meet some of the most talented fund managers in the industry and talking to them about exactly what they're thinking what they're doing…[It's] that basic principle of being…fascinated by what makes a fund manager tick, [being] appreciative of the opportunity to speak to these really, you know, talented ambassadors, but then kind of getting under their skin a bit. You don't just read a sentence and assume that's it…that sentence has been word-smithed and carefully proofread and checked." (Analyst 1, 2020).

Research therefore includes the pertinent company and financial information as well as complex financial modelling from the analyst that has been carefully presented in a way it appeals to the manager. As discussed earlier under the relationship theme, brokers who are successful know the manager they are targeting and know exactly what they and their investor clients are looking for when they pick up the phone to pitch the story. The relationship they have spent time developing includes managers interacting with the analyst as it is the analyst's views the manager wants after listening to the broker. As the data in this study has shown, before the markets even open, analysts have reviewed the latest news and formed a view or story that is then presented and discussed with brokers, arming them before communicating with a manager.

This notion of knowing what managers are looking for and its saturation in the investment industry by way of soft-dollars feeds into how research is constructed and why managers rely on it for investment decisions (Taha and Petrocelli, 2014). It is a product, produced by analysts and distributed by brokers. One broker commented that the prevalent strategy is to keep forecasts conservative enough to account for unforeseen issues, and 'just right' enough to beat the forecast in a way that managers trust in the research. This also keeps the analyst in a position of authority for future research and investment recommendations:

"You can't always forecast correctly because there can be events…globally or…unexpected events…but managers do like to see a good steady track record (earnings) before they invest [with] us because you know, they're all about their

performance…[so] analysts will…take a very conservative stance, but you can't actually go in too conservative, so you can't say 'oh you're going to make a hundred thousand this year so let's say it's fifty' because that in itself is, it's incorrect information that you'd be feeding to the market. You've got to get it within a certain leeway but you kind of make your forecasts so that hopefully…you meet them and even better than that, you beat them, but not too wildly or you know people lose faith in in your note. You've got to get it right basically, but you've got to give them a little bit of manoeuvrability just for unforeseen events" (Broker 1, 2019).

This idea of 'goldilocks forecasting' was seconded by other participants because it affects the level of trust in the research, the broker, and the analyst. Indeed, research shows that bold forecasts that turn out to be inaccurate can have detrimental consequences to a career (Hong et al., 2000; Kadous et al., 2009). which is supported from data collected from this study:

"(Research notes) have to inform the market because otherwise the market is trading on false Information…then you got what's called a false market in the stock and people are therefore disadvantaged because they may be paying the wrong price for the stock…I mean…once you lose that trust you're no longer effective on behalf of the company because nobody listens to you, [they] (managers) will go 'either the guy's incompetent' because you got it wrong the last ten times or 'he's a liar' so then they won't deal with you." (Broker 3, 2019).

Research is also a legally verified document which adds to the level of trust a manager can have in it. As one broker commented:

"What sales (brokers) can and can't say is in the prospectus for the new shares, now that's a document you know there could be anything from fifty to five hundred pages long…but all of which has been legally verified, so the client (manager) [and] the investor can rely on that prospectus…If we're IPO'ing say a property company in the UK, how does the investor know that what I say about

> *that company is true? well the reason they know is that…I can only say what it says in the prospectus and the prospectus has been legally verified."* (Broker 2, 2019).

In a very real way, research is valued by managers because it communicates to them what they don't know about the company. They can also trust the 're-do' of company accounting information that they receive from the analyst as well as management, client, or supplier information because it has been legally verified. Forecasting from the analysts is also 'conservative' in order to be as accurate as possible and instil trust:

> *"There is no doubt that managers rely on broker research quite heavily in the investment making process. Of particular use are the financial models and forecasts…[managers] are unlikely to want to invest in one of our corporate clients [or] new issues if they don't trust the analysts' judgement, forecasts [or] valuation methodology."* (Analyst 4, 2019).

Keeping conservative was an interesting observation while interviewing participants because some research shows bold forecasts can be persuasive and command lots of manager attention if it is deemed high quality research (Clement and Tse, 2005). Similarly, there are well known examples that show a bold forecast can pay off such as the valuation of Amazon in 1998 (Beunza and Garude, 2007; Svetlova, 2018). Incorrect bold forecasts, however, can result in losing trust and have detrimental career outcomes for analysts (Hong et al., 2000; Kadous et al., 2009). Based on data from this study, it also negatively impacts the relationship between broker and manager so much so that the manager will no longer deal with them. Keeping a conservative 'goldilocks' approach, then, may replace riskier forecasts with consistency over time, growing a history of results that brokers can leverage as one of their credibility tactics with managers.

The second aspect of how research persuades, or influences manager decisions is the source credibility or trust in the analyst. The reason this is pertinent is because of how they are viewed in the investment industry, making the research they produce as close to gospel as it can be. As mentioned earlier, one broker expresses that analysts are seen as the ‘stars’ in the investment process:

> “*a star analyst is a bit like a star player on a football team…they’re the ones who are the kind of box office people who help you to sell out the stadium, so if we have 20 analysts it will be about five or six of them who are kind of really experienced, highly regarded, you know best in class in their industry, and therefore crucially important…in terms of marketing the firm and marketing the firm's research”* (Broker 2, 2019).

The same broker goes on to say that analyst research is therefore integral to their ability to succeed and gain manager ‘clients’ for investment transactions:

> *“The analysts research recommendations you know are very important to us…they’re are the ones that are rated highly by the institutions so ya know certain analysts …tend to have a high reputation in the market yeah, we've got four or five guys here who are ya know, I’d say [they] are regarded as very best in class by the client community (managers), so you know they're important people because you know they're important for us in terms of our ability to get clients.”* (Broker 2, 2019).

In fact, the idea of analysts being viewed as best-in-class is based on an industry practice of voting which analyst’s research is the best:

> *“[We] caught everyone's attention…got the votes and secured the number one ranking and then of the subsequent year got number one and number two so you know really pleased for that really pleased.”* (Analyst 1, 2020).

Brokers are therefore keen to leverage their analyst’s position in the industry to increase the research influence toward managers who are more likely to be persuaded by that research because it comes from a credible source. In fact, many participants viewed brokers as the generalists versus specialist analysts, the front men, the distribution arm of the research product, the servicer of the manager client with pertinent information:

> *"The way we think of it is basically you've got the product (research) and you've got distribution (brokers) and in any effective organization…the distribution (has to) ensure that that is robust because ultimately they are the face of the company, and they are they are selling the product…they're that first line of defence."* (Analyst 2, 2020).

The analyst has a position as the expert voice of the investment for brokers to use in wash-rinse-repeat fashion to help close the deal. As one participant aptly described, it is the credibility and trust of the analyst that bolsters the influence of what is actually written within the research itself:

> *"If we laid out, I don't know, ten analyst research reports on a company…they would look at them and think that looks pretty commoditizing and can't knowingly distinguish between them. Some are shorter, some are longer, some have different colours, some have more pictures…but they (managers) think fundamentally you are writing a report. The real magic sauce I guess is the experience that sits behind the words and the pictures and the confidence that that instils…to trust what is being written and said and…we all play a part in that…The client and the salesman have to have that confidence and trust in the analyst."* (Analyst 2, 2020).

Their research, then, is very much the persuasive catalyst in the investment process:

> *"It isn't necessarily that the product [research] is the [only] reason for the action [investment decision] but it can be the catalyst of the transaction…our product…is to demonstrate an authority and a credibility in that particular sector or specific stock. It is often a tool that's used…to engage in a broader conversation that…ends up with the institution [manager] deciding 'actually yeah I like what you wrote about Company A…I bought those [shares]'."*

(Analyst 2, 2020).

Additionally, this notion of best-in-class analyst with notable research that demonstrates an authority and credibility on a stock is why brokers rely on analysts during early morning meetings following RNS announcements. It provides the necessary additional information to be prepared with the content or stories needed in their daily activities:

> *"We're looking at all of the RNS (news) that comes out…the race is on then basically to look at that news flow and put together some informative bullet points for internal circulation and form a view...the main purpose of the news flow analysis is to be able to inform [brokers] as to what we think about things that are going on in the world so…we can arm our traders and our salespeople with a view."* (Analyst 1, 2020).

The dialogue between brokers and analysts also allows for brokers to feel confident about their own views and the credible stories they present to managers in their communications:

> *"When you're (brokers) looking after a book…and juggling…that many names…it's quite helpful to know or be reminded of the headlines, and it's not just a matter of maybe they don't have the time to read through thirty pages of text describing how a particular investment…has done in the last twelve months right? but also …[what] they're (brokers) particularly interested in is that two-way interaction, so the 'what do you think? bit'…[then] the market opens [and] they get on with it."* (Analyst 1, 2020).

In this sense, analyst research could be viewed as coming full circle, not only providing the in-depth information that managers seek out and need to make decisions, but also a person whose position in the industry fuels brokers with a reminder of the key headlines as part of a compelling story. The following section, then, takes a look at the third way research influences manager decisions, through the story.

4.3.3 Theme: Story

The story is what brokers use to gain manager interest and includes summary points from analyst research as well as company information. The story has more than one part to it and is used at more than one stage of the investment process. It also comes from more than one source to the manager, namely from brokers, the company (facilitated by the broker), and most importantly, from the analyst by way of research. A version of the story is first presented by companies to brokerage houses who then choose whether or not to follow that company. Analysts then get to know the company and write the research brokers use with managers.

The use of stories or a narrative to be persuasive is not new. Narrative paradigm theory, for example, emerged in the early 1980s and describes how the use of stories can be more persuasive than a good argument (Fisher, 1984). Though under researched in the investment industry, contemporary research in financial markets references the use stories by managers through what they term a conviction narrative (Chong and Tuckett, 2014). In their studies, the conviction narrative is an integral part of the manager investment process. That is to say, a manager has to be confident that their own internal story gathered from the sell-side is correct and attractive enough to warrant an investment decision. From the data in this study, the same appears to be true of brokers, who need to feel confident in their story to open the door enough to then place research. The story, then, acts to support the research and is indeed informed by research to begin with. The story is told several times, in varying degrees of detail, through common channels of communication and thus acts as a tactical peripheral route to persuasion. It is joined, however, to the central route through research placement whereby the research confirms the story it helped create.

In speaking with participants, the story was referenced 30 times during interviews without being prompted. In every mention, whether from a broker, analyst, or company, participants explained that the purpose of the story is for brokers to open the door to managers, then have the company and broker sell the story with the research being the reference document for discussion. With that in mind, it could be argued that the theme of the story should be presented as a tactic in response to research question one. Indeed, it is absolutely a tactic used by brokers to influence manager decisions. With the story being influenced by the research, however, or the fact that the research is a more detailed version of the story, it is being included in response to research question 1b. From this perspective, it is easy to see why participants referenced the story so many times. Indeed, one broker mentioned this is their reason of being, to present the company story in the best possible light for managers to be interested in it enough to take the research and decide to invest:

> *"If you want to get them (managers) to notice your company you need a good broker to market your story such that you're constantly in the eyes of these…fund managers…so you see the brokers role is to keep any particular company in the headlights."* (Broker 3, 2019).

The same broker went on to say:

> *"if you look at us as the eyes and ears of a company in the market it gives you a very clear picture of…why they pay us…we tell their story and we would spend, our analysts would spend a lot of time with the company getting to understand it…but again it's our slant on it and our job frankly because they're paying us and everyone understands…our job is to put it (the company) in the best light possible."* (Broker 3, 2019).

The story that is presented to managers is not something the analyst creates alone, it is a collaborative effort between broker and analyst, built upon the information that is available from the company. As part of the research process, once the analyst has been assigned to work with the company, both the broker and analyst will work together to remove any story roadblocks that may dissuade a manager from investing. As one broker described:

> *"The way we look on it is if you if you tick off all the reasons, cancel all the reasons, for them not to buy shares, so you know make sure the board look sensible and intelligent, make sure the business model is sensible and intelligent, make sure they don't go making stupid acquisitions, so if you zero all*

> *the reasons why people wouldn't want to buy the business in theory by default they will buy it."* (Broker 3, 2019).

In some cases, the company is advised to make organizational changes in order to make a more compelling story to managers:

> *"Their (managers) win is just to buy shares…so for example…if a company's got a division that makes you know steamboats that no one's interested in and loses money [on] and the market says well the fund manager says 'I would buy that company but they've got to get rid of the steamboat division' that's our job either to warn the company that nobody'll buy the shares with the steam boat division or to tell them 'ok everyone's changed their mind now and they don't like you having this steamboat division' they say you got to get rid of it…we can't make the company do that but we can tell them that if they don't put the company in the best light…why are they bothering to be public." (Broker 3, 2019).*

This idea of removing reasons for managers not to buy shares is aided by broker knowledge of the manager, their knowledge of the market, and being armed with information from their analysts. The story should also be a seamless narrative that brokers can be confident in:

> *"…you've gotta be kind of assertive, pretty sure of yourself, you know pretty sure of your story, be on top of the story, but be the sort of engaging guy that a client will take a meeting from..."* (Broker 2, 2019).

As this study has shown, brokers will assign analysts to a company before taking it on as a corporate client. Analysts will strip the company of its numbers and then put them back together again so that brokers know the company back to front. Brokers and analysts need to feel confident in what they are selling, and analysts have to be able to stand behind and defend their research as part of that story during a roadshow with managers and sometimes their investor clients:

"Over time I've built up not only a knowledge of the investments, the strategies for managers and then the underlying investors but I think I've also learned how…to get the most out of a meeting…we're not glorified note takers…[we] really form a view and then go in front of [managers and] investors and have that view challenged and…defend it almost if it was the debating society or whatever…we're paid to form view and to express that view…our recommendations." (Analyst 1, 2020).

In summary, Research influences manager decisions in three key ways: one, the research content itself, namely legally verified in-depth financial information; the source of the research itself, namely the analyst; and the story: namely that analysts conduct research that influences the story creation. The reason why research is so powerful in influencing manager decisions, then, is that it contains the underpinnings, context, and legally verified data to support an investment recommendation, providing data to a manager that they otherwise would not know.

4.4 Summary of research question 1

So far the data in this study shows that in a very literal sense, the leading tactics used by brokers to influence managers across common channels of communication include calls, emails, social interactions such as a bar, coffee, lunch, or diner (which are no longer allowed under MiFID II), meetings, roadshows, the story, the regulatory news service (RNS), and research. Indeed, out of all interviews, the most frequent references included the story, formal meetings like roadshows, and research. The placement of research, however, is the end game not an initial communication. Tactics used ahead of the research are methods to build relationships that make placing the research easier. Interestingly, many references were made to the RNS which is not a tactic itself, but it influences the tactics brokers use in a reactionary sense to RNS announcements. A company experiencing a drop in profits where a profit-warning is required, for example, must utilize the RNS to communicate the announcement rather than directly to the broker selling their stock. Brokers and analysts, however, still choose which tactic to use in their communication with managers in reaction to that

RNS announcement. In the previously illustrated example, brokers chose a call and meeting to persuade a manager not to panic sell. This idea of a regulated central communication hub like the RNS is interesting because it is readily accepted by industry actors. Communication measures outlined under MiFID II, however, have not been readily accepted but instead have been resisted then conformed to out of fear. Another key tactic is the use of roadshow meetings. These formal meetings happen at least twice per year where brokers arrange upwards of 60 meetings around the time companies publish results but can happen at ad-hoc times to suit all parties. Interestingly, the use of this tactic has not changed pre- and post-MiFID II in that they still occur, but the content of roadshow has evolved into a more transparent one. Based on the data in this study, one reason roadshows remain prominent is that they bring a human layer to the investment process. Roadshows offer a venue for interpersonal interaction to discuss the research and form relationships. They are also a tactic brokers use to build and maintain rapport for future communications.

The notion of relationship building is strongly felt in the investment industry with participants utilizing peripheral routes for the purpose of building relationships with managers. Out of the themes that emerged from research question one, relationships is one theme that encapsulates the way brokers use the peripheral routes of confidence, credibility, rapport, and social proof to build trust with managers, place research, and the sell the company story. Rapport is an opening tact for brokers to get to know managers through calls, emails, meetings, and social interactions. These include lunches, dinners, meeting at a bar, and social introductions from those with pre-existing relationships that similarly acts as social proof. In a pre-MiFID II landscape, the idea of building rapport with managers expands beyond making phone calls and trying to provide the company story over the phone before securing a meeting. It is funded through social interaction which feeds a future relationship as part of their people-oriented business. Brokers use confidence through a series of different applications including a perceived confidence, being authoritative and knowledgeable, as well as from being prepared with market knowledge and knowing their target managers. Much of the perceived confidence comes from the structure of the industry whereby brokers are gatekeepers to information managers don't know. Managers, then, look to brokers and their analysts as the foremost authority on a stock. Brokers who are authoritative (or perceived as such) are more likely to secure a meeting than one who is not. Similarly, brokers who are well prepared with verified information before communicating with managers, who have built a relationship with them over time, and understand what they are looking for, feel more confident in their delivery of the story than brokers who are not prepared nor know their target audience. As outlined in the analysis of the next research question, this is one area brokers are fearful of in regard to MiFID II. Knowing their manager helps them tailor the story and know what research they will be interested in, yet MiFID II discourages brokers to know managers outside of a transactional relationship. Credibility is also relationship based but a combination of both data points and broker-manager interactions. A history of results, for example, is a data point that can be referenced on a phone call with any manager, but if that broker has a history of results with a specific manager, it adds to their relationship closeness which further increases broker credibility and therefore persuadability. Similarly, brokers are gatekeepers to analysts who are seen in the industry as the star football players on a team. Brokers leverage the position of their analysts to increase credibility whereby managers are more likely to accept research from a broker whose analysts have a reputation for providing best-in-class research to guide their investment decisions. Unexpectedly, credibility is also influenced when something goes wrong. How a brokers handles communication during a down-grade or profit-warning, for example, can lead to increased credibility when the advice managers receive is timely and correct. Social proof is utilized in harmony with credibility and confidence rather than traditional routes like websites touting online reviews. Pre-MiFID II, this was more traditional if a broker was introduced socially to a manager, whereby the person with a pre-existing relationship could vouch for the broker. Similarly, managers would often be influenced by brokers selling a specific stock if many analysts were following that company. Most frequently, however, social proof was earned by brokers referencing their own firm as prestigious, selective, with a reputation for only taking top tier companies as clients, and a history of results to prove it.

Together, each of these peripheral routes can be seen as positioning tactics to place research. For the purposes of this study, research has been examined in its entirety and not as individual pieces of content. This is because research notes created by analysts from one sector such as investment trusts will differ in length, valuation model, and focus compared to an analyst in real estate or pharmaceuticals. Research, though, influences managers in three key ways. Based on the data in this study, research first influences managers based on the content itself. This in-depth financial information is legally verified and contains information managers cannot know from public records. The second way research influences is through the position and credibility of the analyst. Their role as star football players adds a massive amount of credibility to the research they produce, and brokers leverage this to place research. Lastly, an interesting and unexpected finding about the use of research, is its role creating the story. Research, in this way, comes full circle because the story is used at the outset of broker communications with managers. As mentioned above, the reason why research is so powerful in influencing manager decisions is that it contains the underpinnings of the story, in-depth financial accounting information that has been legally verified, with an investment recommendation made by a star analyst. It provides managers with the data they would otherwise not know, making it integral to the investment decision process.

4.5 Analysis of research question 2

2. How does MiFID II challenge the status quo of the methods of persuasion used by brokers toward managers in the investment industry?
    a. In what ways are the existing social norms and practices of the investment industry being forced to change as a result of MiFID II regulation change?
    b. How are MiFID II fears legitimized by the opinions and experiences of brokers due to the history of soft-dollar usage as a persuasion tactic to influence managers?

The crux of question two is to identify what has been impacted as a result of the MiFID II regulatory change, and more specifically, the impact to persuasion methods. Response to research question two, then, is aimed at the ‘what’ has been impacted rather than the ‘how’ brokers have responded to regulatory change which is the focus of research question three. To better identify the ‘what’, it is helpful to summarise the aims and objectives of MiFID II to provide context to how it has challenged the status quo for investment industry actors. This encompasses the change to activities carried out by brokers to influence manager decisions, norms, and the impact to their relationships. The following section summarizes the main points of MiFID II, followed by a description of its impact to key tactics used by brokers. The post-MiFID II relationship will then be discussed in relation to communication methods, how participants have perceived this regulatory change, and how they have experienced its impact on their daily activities.

> ***"How does MiFID II challenge the status quo of the methods of persuasion used by brokers toward managers in the investment industry?"***

The data from this study shows that methods of persuasion can be grouped into core themes or activities that underline the communication between brokers, analysts, and managers. These activities include the use of the RNS, the use of roadshows, the story, and research to influence managers. Additionally, methods of persuasion include industry position and relationships, such brokers leveraging analyst position as star football players, their research, and leveraging manager relationships to place research through common communication methods including as calls, email, and meetings. MiFID II has impacted each of these methods of persuasion in different ways. The following section describes how these methods have been impacted against MiFID II main aims.

As described in chapters one and two, MiFID II is aimed at unbundling services to create increased transparency in the investment industry and is in response to the global crash of 2008. This newly created transparency allows investors to see the cost of their investment, namely research and trading commissions as separate costs. Prior to this regulatory change, investors had no visibility into what they were paying for research or if the research was related to a specific trade as the cost was hidden in premium rate trading commissions. As one broker confirmed:

> *"Underlying clients are [now] not sort of paying for loads of research that they don't need, because what was happening was that institutions were paying a*

lot of stockbroking commissions out for all kinds of research, lots of it that they probably didn't use, but their underlying clients you know the…[investors]…they were being charged for that, although they didn't really realize that, so…the purpose of MiFID II is to prevent the underlying investors…from paying for research that that their fund managers don't use." (Broker 2, 2019).

Soft-dollars had suited brokers as they could easily place research with managers to influence their decisions. As one participant commented:

"In the old days when everything was sent out and consumed for free…it was very easy…to get on to their readership lists" (Analyst 2, 2020).

This arrangement also suited managers because they were not paying for research out of dedicated funds that had to be recorded in their profit and loss statements to their investor clients. Managers could show greater profit margins and reduced costs which they could in turn leverage to solicit new investor clients. MiFID II effectively stopped this longstanding soft-dollar norm which increased the difficulty for brokers to influence managers with their analyst research. MiFID II, then, challenges the persuasive tactic of how research is placed. This challenge, however, is not felt equally among all brokerage or research houses. In speaking with participants, not all brokers relied on soft-dollars to place research, some have always used a 'pay to play' business model. This is not to say MiFID II it has not impacted them in other ways, indeed all participants expressed displeasure about the impact of MiFID II on their industry, but as one broker explained:

"We are not like most brokers…our…clients have always paid…for [our] research…so because our [clients] pay for the research we fall into the MiFID II category, we're kind of covered there, so it hasn't really impacted [us] because we've never made a lot of money out of research. But if you go to other broking houses where they have big departments that are full of analysts writing on companies…they make money from selling their research to fund managers." (Broker 1, 2019).

For companies like these, the impact of MiFID II has not changed their status quo of placing research to influence managers.

Another way in which MiFID II has impacted research is legal verification. While company numbers needed to be verified before, MiFID II has introduced new levels of legal verification which had spilled over into new practices by brokers and managers alike. Discussed in more detail in research question three, brokers often visit and verify claims made by companies in person before analysts finish their research and brokers use the story:

> *"We can't say for example, we floated a legal company on the stock market [and] we say they've got a thriving business in Australia; they've got officers in Perth Sydney Melbourne, you know we have to be sure [now] and show that they have [them], you know I mean I've personally visited the offices in Perth and Melbourne and Sydney of that company myself so that…we sign off about their Australian offices."* (Broker 2, 2019).

Managers too, have adopted practices where their investor clients want to personally verify information provided in the research which in turn has slowed the overall investment process down, as one participant explained:

> *"Some investors won't invest in a company unless they've done a site visit and that kind of tick-box in their due diligence so sometimes it can take several months to warm up an investor."* (Broker 1, 2019).

This notion of extra-legal verification of course impacts the use of the story. As seen in response to research question one, the story is influenced by the research, allowing brokers to present the condensed version of the investment deal to managers. The change in research, then, changes the time it takes post MiFID II to investigate and verify the story, with brokers being acutely aware they have to know and be sure of the facts contained within the story before pitching it to managers.

Of lesser impact to persuasive methods is the MiFID II impact on the use of the

RNS. The RNS is a regulatory news service operated by the London Stock Exchange that channels information flow from companies to brokers, analysts, and managers, and its use predates MiFID II. Information from the RNS, however, is being used to influence research notes which have added legal verification requirements before it can make its way into the note. The impact of MiFID II on the RNS, then, is two-fold: one, it impacts the level of legal verification of information that informs the research and two, it impacts the level of dependence on analysts for their input on RNS news before communicating with managers for the day.

Similarly, roadshows as an activity are also less impacted by MiFID II regulatory change. This is because roadshows are deeply integrated into the investment industry as a norm. Roadshows still happen at least twice per year or at other times to suit the share issuance or meeting location of the manager (outside London). Where MiFID II impacts roadshows is how it changes the dynamic of the meeting. Roadshow attendees now know exactly what research has been done, by whom, how much it cost, and that everything has been legally verified prior to the meeting. These facts were not known by managers or investors before which adds a new layer of transparency to the transaction and invites additional scrutiny from the manager when discussing the research. Reliance on the analyst to defend their view during a roadshow is therefore greater now than pre-MiFID II. Managers also demand higher quality research to discuss at a roadshow is because it is a visible cost to their investor clients to whom they have a fiduciary responsibility. While roadshows as a literal activity or persuasive practice have not changed due to MiFID II, research and cost information discussed as part of the roadshows as well as the tasks leading up to it have.

In addition, because research was transformed into an upfront cost unbundled from trading commissions, MiFID II aimed to increase market visibility for smaller brokerage firms and research houses who did not have longstanding relationships with managers. This last aim, however, has not been successful in the eyes of participants in this study. Instead, managers have chosen fewer research sources and kept with those they have existing relationships with:

"When Mifid was being sort of kicked around, [the] idea [was] that the…institutional clients would shop around and they'd say 'I tell you what…Brokerage A has a very good industrial team, brokerage B has a really good health care team, brokerage C has a great tech team, so what I want to do is…I just want to pay for the industrial team at A, the health care team of B, and the tech team of C' …but actually…if you believe that a brand (research from a company/analyst) has strengths and certain qualities that are reliably replicated across the various teams…well why would I then have 15 different research agreements in place with 15 different firms for tiny bits when I can just go to a one-stop shop and have you know as much as I can consume for a fraction of the cost…that's been a better strategy [for managers]." (Analyst 2, 2020).

Reduced access to and creation of research has been an unintended impact or consequence of MiFID II. As will be seen later, research volume has actually decreased as a result of MiFID II rather than increased.

Lastly, in addition to stopping soft-dollars to increase transparency to investors, MiFID II requires increased transparency in communications between industry actors. This transparency is aimed at reducing the influence of social interactions on investment decisions that were traditionally associated with soft-dollars also. This has been achieved by discouraging social relationships as well as requiring communications to be recorded and publicized. As one broker commented:

"We have to be very very careful how we communicate with fund managers because they want it done you know to the utmost regulatory way, so there is a real system of how you communicate with fund managers now, and that day of meeting for a drink in the pub and having a little chat and seeing where they are, those days are over!" (Broker 1, 2019).

Indeed, MiFID II has had a big impact on the relationship dynamic and methods of persuasive communication between brokers and analysts with managers. The impact to the relationship and methods of communication to be MiFID II compliant leads into the next research question. The following looks at the way communication methods are being forced to change, as well as changes to the use of the story and the post MiFID II relationship.

4.6 Analysis of research question 2a

In what ways are the existing social norms and practices of the investment industry being forced to change as a result of MiFID II regulation change?

The data from this study shows that MiFID II does more than change the soft-dollar norm for placing research, it also impedes the social aspect of relationships. As part of this impediment, common methods of communication have had to adjust to fit the new normal. In speaking with participants, many of the typical communication practices such as calls and emails, the use of a story, and roadshows have not fundamentally changed as a result of MiFID II in that they still happen. However, with the social side of the relationship being curtailed, there has been a change in the formalities of how transactions are offered and carried out that. This in turn has affected the way brokers make calls, who actually can make a call or send an email, the preparation needed for the story, the information known by each party at roadshows, and of course, the reliance on research. These communicative and relationship changes have all been injected into the investment decision process as a result of MiFID II and based on participant commentary, demonstrates that MiFID II has been understood but not well-received. One broker, for example, lamented the impact to the social interaction with managers because in his mind, managers only deal with brokers they know and trust, and under MiFID II, that trust is reduced:

"MiFID II came in [and] there's things like gift registers now, fund managers, most fund managers can't accept a gift over 25 pounds of value, so it's very much tightened up. An interesting point and one I raised is that if you know human nature is such that you only like dealing…you deal with people who trust, you don't deal with people you don't know, or you try not to, you know, you'd rather deal with someone you know than someone you don't know so what the regulator's doing is saying that you shouldn't have any relationship

with the person you're dealing with, but then it's completely counterintuitive in terms of human nature because why would we want to, why would I, buy shares from someone I don't know, and…what is an interesting point is in going forward, how does a broker ever get a relationship with a fund manager if he can't ever talk to him on a social basis." (Broker 2, 2019).

Without the social side of the relationship, social interaction including meeting for a drink at a bar, or for coffee, or dinner cannot happen. Similarly, managers are no longer incentivised to work with a specific broker except for maintaining any pre-MiFID II relationships or to obtain their analyst's research. The result is a loss in relationship closeness between the sell- and buy-side with further impact to the business aspects of their relationship. This is not all, under MiFID II, common communications are recorded including phone calls and meetings which are then reviewed for compliance. Any meeting to discuss a potential stock must be conducted while wall-crossed, recorded and made public, which can affect the price of a stock before a capital raise. One broker, for example, expressed how they disliked the way MiFID II has turned tasks like phone calls into tedious chores. To better understand how MiFID II has forced existing norms and practices to change, it is helpful to see it encased in the post-MiFID II relationships of industry actors. This next section therefore looks at how the relationship, and with it, the norms and practices have been forced to change under MiFID II.

4.6.1 The post-MiFID II relationship

Based on the data collected in this study, the fundamental structure of the relationship in terms of 'who does what' has remained the same on the sell-side post-MiFID II. Brokers are still considered the frontmen of the industry, the 'eyes and ears' of the company, with analysts still being seen as the stars of the show. If anything, analyst position has been elevated post MiFID II although with research being an upfront cost, there are understandably fewer of them. Managers are also still reliant on brokers for information and analysts for their research, which they use as a guide for their decisions. Similarly, brokers are still reliant on analysts to arm them with the key facts of the story before speaking to managers albeit in greater frequency and detail post-MiFID II. However, with the key change in research delivery, other social norms and practices have had to adapt or change to accommodate for the requirement to pay for research up front.

The social norm of being friends with and meeting socially with managers has been stopped as evidenced below:

> *"They (managers) won't go for lunch; they're not allowed to have entertainment anymore."* (Broker 3, 2019).

This directly impacts what the same broker relayed as a key ingredient for being successful: to know their fund managers well, be friends with them, and know what they think or like. This relationship change also affects the way managers respond to broker communications in a formal sense:

> *"Post MiFID II the fund managers are less inclined to be sold to…they will talk to us but don't usually come out and yeah they don't want a long meeting they just take a call now."*
> (Broker 3, 2019).

Which is compounded by the MiFID II requirement to have greater transparency in all communications:

> *"Everything has to be logged, phone calls have to be recorded, we have to time what time you spoke to what fund manager [and we have] got to record what they say. It's long, it's tedious, but it's what we do now, it's all part of the job."*
> (Broker 1, 2019).

This particular comment underlines how methods of communication have been forced to change but also shows MiFID II regulations are well understood. The information is recorded and documented and made available which makes the idea of calling a friend less inviting. Thinking about this with an example, there is definitely a difference in how one speaks with a friend compared to a business acquaintance. Friendly conversations include asking personal questions about each other, perhaps making a joke, or asking questions that are not explicitly related to the purpose for the conversation in the first place. With everything having to be logged, conversations are much more matter of fact. Participants described managers as a ‘sceptical bunch’ who may even be ‘over-broked’ so securing a meeting indeed comes by knowing the facts, but also by knowing the manager, and knowing what their investor clients are looking for. The call post-MiFID II is matter of fact and just interesting enough to secure a meeting. Brokers may only have 30 seconds to deliver enough information to secure a meeting, but this is not indicative of calls with long term friends. The change in calls under MiFID II, then, are fundamentally based on removing the frivolous aspects of conversations with friends, turning them into acquaintance-esque calls.

The same goes for calls and emails from analysts, only this embargo in communication is related to what participants called umbrella agreements. This will be documented more later, but in essence, calls are restricted for analysts based on what agreement is in place for what manager for what investment opportunity. As one analyst described:

> *“If there isn't an umbrella agreement with an institution then we can't even speak to them. So, you have to have that service agreement in place before any communication can take place and that agreement might only cover one particular area within that firm…we're only able to talk to one team so there are various barriers.”* (Analyst 2, 2020).

This change in communication impacts the overall dynamic of the relationship. One broker even likened their post-MiFID II relationship to visiting the dentist – a necessary and ongoing formal relationship because a person needs a dentist for good teeth and dentists need patients for their livelihood:

> *“It’s a bit like your dentist you know? I mean you might not like him personally but that's not to say he doesn’t do a reasonable job for you and you stick with him”* (Broker 3, 2019).

Relationships, then, have become more formal from the Brokers' 'go-to' in calling their friends and are being forced to evolve to something less social, but equally beneficial such as a mutually beneficial transactional relationship. This is not to say Brokers do not call or seek to meet with the managers they have built relationships with over the years pre-MiFID II, quite the opposite. Indeed, the data shows that getting in front of MiFID II by leveraging those pre-existing relationships ahead of the regulation change has been an important practice or strategy for participants in securing payment for research. This social change, however, has spilled over to affect the business relationship, with managers even opting to abstaining from meetings in case it requires paying for something up front, simply because they do not want the cost.

One existing social norm as part of the post-MiFID II relationship that has changed more organically is the elevation of analysts as an authority in the industry. Analysts' raison d'être has always been to write and provide research to guide manager (and underlying investor) decisions. Indeed, as one participant commented, they are anxiously engaged in providing information along with their opinions for that purpose:

> *"We constantly think about how to arm underlying investors with enough information [for managers] to make informed decisions…offering people (managers) information that they can't readily access, alongside opinions that come out of it, so with every note we come to [a] conclusion, you know, this is our preferred pick [and] these are our preferred picks because dot dot dot."* (Analyst 1, 2020).

They have also always been considered the star football players, but in a post-MiFID II landscape, with upfront payments and fewer notes being produced, managers are relying more heavily on analyst research. As a result, their position of authority has increased post MiFID II with high regard by the manager community. Information, then, still flows the same way from brokers to managers and from a transactional perspective, the relationship structure is the same, but the role of analysts is heightened along with their research as a catalyst for the decision. Indeed, in speaking with participants, this added reliance on analysts and their research is due to reduced coverage but increased quality:

> *"The breadth of research is reduced…but what I would say…because everyone is now paying for this research, the providers actually [have] stepped up a bit the quality of research."*
> (Analyst 3, 2019).

This finding is supported in the existing literature about reduced research quantity but remaining research having increased focus and utility post MiFID II (Lang, Pinto, and Sul, 2019). More about impact to existing practices and new ones that have emerged post Mifid-II will be discussed during analysis of research question three.

As described earlier, roadshows and the story are common practices that still happen and are still a fundamental tool to influence manager decisions post MiFID II. These practices are being forced to change, however, in two ways: firstly, roadshows now contain research cost information that was previously unknown to managers or their investor clients. The point of roadshows to meet and discuss the research remains consistent, but analysts are under greater scrutiny as the value of their research has to be justified to the investor ahead of time. Roadshows, then, may involve greater scrutiny from the more focused research about the company which has been legally verified. Similarly, these meetings have to be logged. As one broker commented:

> *"We will tell them (managers) over the phone on a recorded line… that the meeting you're going to have [is] on Tuesday next 9 a.m.…so we have to make sure we've logged all of that, that we've logged that we've wall crossed them, we've logged that with our compliance. The client (manager) has to log that with their compliance so that they're aware. There's strict compliance procedures around that meeting."* (Broker 2, 2019).

Secondly, the story now has to include greater detail with personal visits to company sites to verify that what the information brokers provide is accurate and without future surprises. As one broker commented:

> *"Now [it's] a bad example but [say] in terms of mining companies you…say [to managers] 'they've got this lead mine in Botswana', then you find out well they did but it didn't have the legal rights to the revenues from it. Everything has to be verified you know so you know in order to claim that you've got that mine in Botswana, the lawyers involved will need to have seen a copy of the license that you've got from the Botswanan government that allows you to take the revenues from that mine…[now] that all has to be independently verified. Now my client (manager) isn't going to fly to Botswana to find that mine but the client will know that if it's in the prospectus then that mine exists and the company does have the revenues from it."* (Broker 2, 2019).

As seen here, this comment shows that the story is a common communicative practice, and that the story is informed by the research. In addition, it shows that the story is being forced to include greater legal verification before being communicated to managers. Discussed later in research question three, this kind of change in practice impacts the way in which brokers utilize peripheral persuasive methods to influence managers. The story, for example, is a condensed version of the research, which is discussed and defended during a roadshow. Greater legal verification to inform the story (research), leads managers to have greater trust in the analyst research, despite brokers feeling a decrease in trust in terms of their post-MiFID II relationship.

Now that the impact of MiFID II on methods of persuasion and how regulation change is forcing existing social norms and practices to change to meet compliance have been discussed, it is time to look at the perception of MiFID II through the eyes of those affected by it in their day-to-day vocations. This will invariably reference some of the information already analysed up until this point.

4.7 Analysis of research question 2b

The following section is therefore aimed at answering research question 2b, which is:

> ***How are MiFID II fears legitimized by the opinions and experiences of brokers due to the history of soft-dollar usage as a persuasion tactic to influence managers?***

In thinking about this question, it is helpful to remember that MiFID II is about providing transparency to underlying investors in response to the financial crash of 2008. As such, this regulatory change was not sudden, it took several years from the original proposal to implementation with many revisions in between. Even the 2018 inauguration was itself delayed from the original 2017 target date in the hope to have a smooth transition away from soft-dollar use for sell-side research (Fantato, 2015). This is important because it suggests plenty of lead time to prepare between knowing what the changes to the industry would be and when they would come into effect. As regulation spokespeople have said, industry actors should not fear MiFID II but should be ready for it (Kyriakou, 2017). Perhaps the notion of being ready came as a warning because it represented such a dramatic change to existing practices. Based on the participants in this study, however, MiFID II fears have persisted despite preparation time. A widely relatable analogy is a person preparing to be a new parent. Based on a general consensus that there is nearly a year of preparation time, it does not mean they are fully prepared for the crash course of ‘figuring it out’ when that day arrives. A new parent can build a nursery, buy all the nappies, read ‘how-to’ books from ‘parenting experts’ and try to apply all the advice given from veteran parents, but it doesn’t mean much on the day. Despite general guidelines from paediatricians, the journey is filled with new experiences and unknowns. The same is true of MiFID II. Participants in this study have experienced first-hand the ‘figuring it out’ that comes with such a drastic industry-wide regulatory change, with lots of unknowns despite having years to prepare. In some cases, preparation has been key in navigating the new landscape, whereas others have lived through their fears in a self-fulfilling prophecy. The following section explores the fears of MiFID II that emerged from the data based on the experiences of study participants.

4.7.1 MiFID II fears

MiFID II fears from the perspective of the sell-side includes both industry and individual fears. For lack of a better word, they are a hodgepodge from both the intended and unintended consequences of MiFID II. As examples, fears resulting from the separating out research from soft-dollars would be a fear from an intended consequence of MiFID II. The objective of MiFID II was to unbundle services, so this was expected from participants who historically bundled services. Fears resulting from the change in relationship such as relationship closeness with managers, or a loss in industry knowledge from less research coverage, would be fears from an unintended consequence of MiFID II. Indeed, MiFID II aimed to increase access to research through creating competition for smaller brokerage houses and independent research providers, but the opposite seems to have occurred. Reduced competition, then, stands as another unintended consequence of MiFID II.

In speaking with participants about MiFID II in general, an observation made was that their feelings about MiFID II impact to their industry and themselves were mixed at best. Some prospects never became participants once they knew this study included research into the impact of MiFID II on their industry. Some prospects agreed pending approval from compliance officers but then never replied to calls or emails. Presumably, the compliance officer denied the request. In some interviews, the participant clammed up a little when talking about MiFID II and it all felt a little rehearsed. Over time, a good script can become a good story, so perhaps getting comfortable with the MiFID II script can one day be a good story brokers use to promote their level of compliance to managers as a persuasive tactic post MiFID II. Stories or narratives are after all a persuasive tactic (Fisher, 1985; Fisher, 1989). In other interviews, talking about MiFID II was more relaxed, and in some cases, so relaxed that insight was gained into how perturbed industry actors are toward the regulatory bodies for bringing MiFID II to their doorstep. These participants were much less worried about expressing their opinions compared to those who never actually joined the study due to the sensitive subject matter. Speaking generally, however, regardless of participant tone, industry fears relate to the perception of how MiFID II has impacted their industry as a whole, whereas individual fears relate to the impact of MiFID II on themselves or their daily activities. Many fears, however, straddle both the industry and individual level. Because of this, MiFID II fears are grouped under the following themes: research and revenue; and communication and relationships. Each theme is explained in context of what the objective of MiFID II is, what the fear of that objective was, and how participants have legitimized those fears through their experiences since it came into effect on January 3rd, 2018.

4.7.2 Theme: Research and Revenue

Fears around the impact of MiFID II to research and revenue are grouped together because they are intertwined. As discussed earlier, the practice of soft-dollars was a longstanding norm in the investment industry and was protected by the safe-harbour act by the Securities and Exchange Commission (SEC) following the prohibition of fixed commission rates in 1975 (Haslem, 2011). The objective of MiFID II with regard to research was to increase the level of transparency to end investors by unbundling research from commission payments. This was well understood by participants, including an understanding as to why this helps investors:

> *"Underlying clients are [now] not sort of paying for loads of research that they don't need, because what was happening was that institutions were paying a lot of stockbroking commissions out for all kinds of research, lots of it that they probably didn't use, but their underlying clients you know the…[investors]…they were being charged for that, although they didn't really realize that, so…the purpose of MiFID II is to prevent the underlying investors…from paying for research that that their fund managers don't use."* (Broker 2, 2019).

That does not mean, however, that it was well received.

> *"it's a piece of regulation that came out, it wasn't liked. It was understood why it was needed but it wasn't liked, [it] certainly caused quite a bit of disruption across the industry."*
> (Analyst 1, 2020).

As the data in this study shows, research is key in influencing manager decisions, and with research no longer being provided to managers for 'free' by way of soft-dollar secondary trading commissions, it reduces the amount of revenue from every investment. Fearing revenue loss through unbundling research is therefore somewhat expected, particularly with the industry not knowing what to charge for research to offset the loss. Similarly, the soft-dollar practice brought with it mass analyst research coverage. The wider coverage provided easy-to-access research with a consensus view of the investment opportunity, reducing knowledge asymmetry for managers to make informed investment decisions with brokers they had relationships with. By requiring managers to pay for research up front using dedicated funds, brokers feared managers would not want to pay. This resulted in reduced research creation from a reduction in analyst coverage, reducing industry knowledge from that research, which managers rely on before making an investment decision. Fear of revenue loss from unbundling services is therefore two-fold: one, fear of revenue loss through unbundling research from trade execution; and two, fear of it being harder to place research alongside a reduction in research production and loss of industry knowledge. The second fear acts to further the first, fearing revenue loss from fewer deals being done.

Looking at the fear of overall revenue loss, participants described MiFID II as a bullet to their revenue streams. While regulatory bodies promoted the notion of opportunity from selling research, participants had a different view:

> *"MiFID II destroyed…well it's altered the financial dynamics of…brokers…MiFID II definitely changed the dynamics; I think it's made it tougher."* (Broker 3, 2019).

The idea that MiFID II destroyed an aspect of their industry or career required some additional probing, but the negative sentiment was felt across participants who did bundle services. They explained how this change in how research was delivered has drastically decreased the amount of revenue generated:

> *"Yes it has [impacted revenue]!...it's reduced greatly the amount of payments that institutions are prepared to make for research because now they're incentivized to spend as little money as possible on research...underlying investors are now much more aware of what they're paying out for research so the fund managers have responded to that by paying less so it's put downward pressure on commission rates and an overall level of commission payments."* (Broker 2, 2019).

One participant even described it as collapsing revenue streams for brokers which in turn has made it difficult for many to conduct business:

> *"There's no money to be made...commission has collapsed, secondary trading commission in shares because of MiFID II...managers now have to pay for [research] out of their own pocket which they don't like doing so that's collapsed...you'll find a lot of our competitors (brokerage houses) are struggling at the moment because there's no revenue."* (Broker 3, 2019).

Survey data from the investment industry conducted by Mooney and Murphy (2018) supports this with brokers suffering a drastic drop in trading commissions (Mooney and Murphy, 2018). Interestingly, it appears not all brokers feared a negative impact to revenue or at least it did not impact them all the same. Large banks, for example, who only focus on large opportunities, are able to transfer research costs to other departments and are not dependent on trading commission revenue to cover the cost of their analysts. As one broker commented:

> *"A big bank never made anything...never made any money out of it anyway...all the volume goes to them they never made money out of research."* (Broker 3, 2019).

Similarly, those who maintained a pay-to-play business model before MiFID II had less to fear in terms of revenue loss from unbundling research. In this way they felt 'covered' from such revenue loss:

> *"We are not like most brokers…our…clients have always paid…for [our] research…so because our [clients] pay for the research we fall into the MiFID II category, we're kind of covered there, so it hasn't really impacted [us]*." (Broker 1, 2019).

> *"Our research is paid for by firms…and it always has been a paid-for model…there's no element of cross-subsidy on whatever we've done in research."* (Analyst 3, 2019).

However, regardless of business model, the trickle-down effect from unbundling was general manager reluctance toward paying for research upfront making it more difficult for the sell-side in general. Several participants, for example, referred to managers not wanting to incur the cost or pay for any research in an effort to reduce overhead:

> *"In the old days when everything was sent out and consumed for free…it was very easy…to get on to their readership lists…whereas at the moment they've had to actually quantify the value that they get from it…naturally that that created a different mindset and an opportunity to reduce costs by rationalizing their supply chain and their product (research) providers."* (Analyst 2, 2020).

With managers not wanting to pay, coupled with reducing providers in an effort to manage costs, it makes it harder for brokers to place research. Managers are apparently not willing to risk showing reduced profitability to their investor clients by using large budgets to buy research:

> *"There has been considerably less analyst - fund manager contact through call or 1-on-1 meetings, the fund manager is frightened that he will have to pay!"* (Analyst 4, 2019).

> *"It's reduced greatly the amount of payments that institutions are prepared to make for research because now they're incentivized to spend as little money as possible on research."*
> (Broker 2, 2019).

This is especially true if managers use their profit and loss statements as a persuasive tactic to solicit investor clients or show returns. Post-MiFID II, managers have a specific budget, a dedicated budget, and the research bought with it has to be justified to the underlying investor to whom they have a fiduciary responsibility. Managers are even choosing not to communicate with the sell-side in case they have to pay something for the information. This notion of choosing not to communicate is also an interesting one. As mentioned above, despite guidance from the regulatory body, it seems there is confusion as to what constitutes research. If the analyst and manager are not allowed to talk on the phone for fear of the manager having to pay, it begs the question whether the regulatory body has adequately educated the industry on what is or is not research. Perhaps they have, but manager fears of falling out compliance may trump the definition, negatively impacting communication. As another broker shared, Managers are "*terrified of the regulations as well*." (Broker 1, 2019). While buy-side fears are not the focus of this study, it follows that post-MiFID II, brokers have had to overcome these fears on top of the impact to their daily activities. In particular, adding the job of selling research to managers. As participants expressed, managers are now less inclined to be sold to and no longer have the same incentive to have a social relationship with brokers. Terms like "it's harder now" (Broker 1, 2019) and the additional "job of selling the company's research" (Broker 3, 2019) were used to explain the impact to their daily activities as a result of MiFID II rules. More about this will be covered later under compliance fears.

In addition to the fear revenue loss from unbundling research, participants expressed their fear of reduced coverage and industry knowledge, furthering fear of reduced revenue. This fear was felt across all participants including those who maintained a pay-to-play business model for their own research before MiFID II. As mentioned above, these participant companies may not have feared the loss of revenue from soft-dollars, but they have still felt the sting of MiFID II in other ways –

that is to say, the fear of reduced analyst coverage (Baker, 2017). The reason for this fear is due in part to managers having to use dedicated funds which they do not want to do:

> *"Fund managers have a budget now, they have a very strict budget for research. They allocate that resource, and they have to be very transparent about what they pay for…they're a lot more 'choosy' about which research they take because they're paying for it and…it's a cost that they…don't want to take on."* (Broker 1, 2019).

Indeed, the extant research shows that research quantity has in fact dropped since MiFID II (Lang, Pinto, and Sul, 2019). Post-MiFID II, then, analysts have had to reign in broader coverage and stick to the research they are assigned to that brokers can sell to fit the narrowing audience:

> *"There is a desire (from managers) to reduce…research providers…we've seen that with MiFID II."* (Analyst 2, 2020).

Brokerage houses have followed suit by downsizing their research teams to offset revenue loss (CFA Institute, 2019). The need for many analysts covering companies that are not their clients has therefore diminished with managers picking fewer research providers:

> *"Fund managers are right or rain maybe picking one research note [now]…it's…a dry up of information."* (Broker 1, 2019).

This does not mean research is less important, quite the opposite, but less research is being produced as result of managers not wanting to pay for it:

> *"There's less research about…because fund managers don't want to pay for it, well they can't pay for it…they have to strip out paying for it, and they don't want to seem to want to pay for it, so there's actually less research*

around…than ever before! So not only is the fund manager not encouraged to have a relationship with the broker but he's getting less research, like I said it's an idiotic, I suspect unintended consequence of MiFID II but that's because it was designed by morons." (Broker 2, 2019).

As mentioned earlier, this is supported by the current research whereby research quantity has declined. Indeed, fewer analysts are following European firms compared to US firms, issuing fewer forecasts (Lang, Pinto, and Sul, 2019; Fang et al., 2019). This is bolstered from news articles quoting financial consultancy Citigate Dewe Rogerson on buy-side annual finance industry reports where 250 asset managers cited a year-on-year drop in the number of analysts following UK firms, reducing the available knowledge on existing and new investment opportunities (Karunaratne, 2019). Reduced coverage fears may therefore be both a sell-side and buy-side fear, and in the case of this research, are an unintended consequence of MiFID II. This is especially true in relation to there being less knowledge or information available:

"You know [a] negative from MiFID II which is kind of felt throughout the industry which is you know it's just harder to…write on companies…so there is less research available for people which means less knowledge really." (Broker 1, 2019).

"If companies have less access to capital markets because fund managers know less about them and can trust a broker less, then who's the winner of that? I can't see anybody winning on that basis." (Broker 3, 2019).

The drop in research coverage which furthers the drop in revenue, however, is a particularly sore point for brokers. Participants expressed their displeasure and related what they have tried to do to undo this issue:

"There have been complaints made to the FCA and they said they'll investigate, now I think two weeks ago they said that they weren't going to investigate because it wasn't an issue, but we know for fact that the department whatever

Department over Trade and Industry…[and] the FCA, they don't speak to each other and they all hate each other so this is it's not getting anywhere." (Broker 2, 2019).

As can be seen from this excerpt, however, little confidence is placed in any future resolve.

Conversely, the intention of MiFID II was to increase opportunities for research providers, not stifle them. It was to encourage analysts to fill the gaps left from big banks who could not produce research at a competitive price though nobody seemed to know what the going rate for research was. What happened instead was a dry up of information, with fewer people writing research (Pal, 2018), and managers sticking with select research providers with whom they had pre-existing relationships:

"When Mifid was being sort of kicked around, [the] idea [was] that the…institutional clients would shop around and they'd say 'I tell you what…Brokerage A has a very good industrial team, brokerage B has a really good health care team, brokerage C has a great tech team, so what I want to do is…I just want to pay for the industrial team at A, the health care team of B, and the tech team of C' …but actually…if you believe that a brand (research from a company/analyst) has strengths and certain qualities that are reliably replicated across the various teams…well why would I then have 15 different research agreements in place with 15 different firms for tiny bits when I can just go to a one-stop shop and have you know as much as I can consume for a fraction of the cost…that's been a better strategy [for managers]." (Analyst 2, 2020).

In this regard, some research providers likely benefitted from the change in soft-dollars for research, particularly as a function of having credibility in the industry from notable analyst research, along with effort to maintain existing relationships.

Worthy of note is one more fear related to revenue loss. Though not explicitly explored in this research, participants expressed industry-wide revenue-based fear that could quite easily be explored in future research. That is, the fear of managers and their investor clients leaving UK markets where regulation could become more relaxed:

> *"There's a theory that countries like France and Germany will become more lax with regulation to attract people over to their markets and that may make it easier for them to do business so they can make it more appealing from their side they may go down a different track you know so it will be interesting but who knows what's going to happen."* (Broker 1, 2019).

This is exacerbated with the recent Brexit decision where brokers fear a combination of underlying investors leaving UK markets, furthering their difficulty to influence manager decisions. Further research would be required to investigate the fears around Brexit impact on top of MiFID II in influencing manager investment decisions.

Now that research and revenue fears have been discussed, it is time to examine the experience of participants from fears around the theme of communication and relationships. As described earlier, MiFID II has had a massive impact on allowable communication methods between industry actors which in turn has strained their existing relationships. This is not all, the communication changes under MiFID II have created new obstacles for the sell-side to build new relationships. From the perspective of participants in this study, these lengthy and nuanced compliance measures around communication between brokers, analysts, and managers slow down their velocity on any given day, requiring the recording and reporting on all communications for the purpose of greater transparency to underlying investors. The fears relating to communication and relationships, then, are more about keeping compliant to the new rules, maintaining appropriate communications to continue to transact with managers, as well as the resultant impact to relationship closeness. The next section outlines the objectives of MiFID II relating to communications then analyses the data to showcase how participants have experienced and lived through what they feared would happen due to this regulatory change.

4.7.3 Theme: Communication and Relationships

The objective of MiFID II around communication rules is to increase transparency to underlying investors. Understandably, it also helps to handicap the likelihood of information leakage or insider trading because it discourages social interactions between industry actors where those conversations may invariably happen. Indeed, participants in this study understood the need for compliance measures for communication to that end:

> *"Compliance procedures have been much elevated…now there were always compliance procedures but far far far less obvious and far less onerous than they are now. It's very tight governance…very tight. It was looser a few years ago and therefore more insider information leaked out…it's very very tight now."* (Broker 2, 2019).

As can be seen from this comment, however, the feeling from participants is that MiFID II rules are an extreme tightening on what and how brokers and analysts can or cannot communicate with managers, and that it is burdensome to their roles. Further, MiFID II communication compliance requires that all communications be recorded including phone calls, emails, conversations, and meetings. To this end, while the fundamental structure of the relationship between brokers, analysts, and managers has stayed the same post-MiFID II, these changes to acceptable communication, combined with the change in research delivery, has impacted the relationship closeness between the sell-side and buy-side.

Looking at communication first, fears as experienced by participants include the impact to daily activities. These centre around it being harder to do their jobs as well as an overall fear of falling out of compliance:

> *"It is tricky…it's harder…[if] I ring you up and I ask permission to wall cross you because I want to ask something…they might not want to be but that's what we have to do now…that and everything has to be logged"* (Broker 1, 2019).

Brokers are charged with the task of selling shares to managers who have to buy shares but adding a list of regulatory tasks and steps to log each communication makes their day long and tedious:

> *"Everything has to be logged, phone calls have to be recorded, we have to time what time you spoke to what fund manager [and we have] got to record what they say. It's long, it's tedious, but that is what we do now, it's all part of the job."* (Broker 1, 2019).

This is not confined to phone calls, the same is true of meetings which includes logging any research products being discussed. Together, these added tasks and steps are regarded as a day-to-day nuisance:

> *"We will tell them (managers) over the phone on a recorded line… that the meeting you're going to have [is] on Tuesday next 9 a.m.…so we have to make sure we've logged all of that, that we've logged that we've wall crossed them, we've logged that with our compliance. The client (manager) has to log that with their compliance so that they're aware. [There's] strict compliance procedures around that meeting."* (Broker 2, 2019).

> *"It's…another time-consuming procedural regulatory issue that has just become another kind of day-to-day nuisance…there's much more regulation and much more red tape."* (Broker 3, 2019).

The same goes for communication from analysts. Post-MiFID II, calls from analysts to managers are restricted based on what agreement is in place, for what manager, and for what investment opportunity:

> *"If there isn't an umbrella agreement with an institution then we can't even speak to them. So you have to have that service agreement in place before any communication can take place and that agreement might only cover one*

particular area within that firm…we're only able to talk to one team so there are various barriers." (Analyst 2, 2020).

There is no doubt that brokers and analysts have experienced the added hardship in communicating to managers as feared through the time-consuming nuisance of recording and documenting all communications. Regardless of it being "part of the job" now, it highlights a relatable example, the difference in how friends talk versus acquaintances. Now, as the data from this study has shown, brokers who are trying to establish a new relationship or rapport with a manager will have the facts of the story ready for an initial call but prefacing calls with scripts takes up valuable time. This is in light of managers only liking to give 30 seconds to gain their interest. It is unlikely too that brokers want to preface every conversation with a compliance script or announce the call will be recorded with career ending consequences when trying to build rapport for the purpose of making a sale. Communication changes under MiFID II, from this perspective, remove any and all would-be frivolous aspects of conversations with managers, turning them into acquaintances, making everything just a little bit harder.

The other communication-based fear for all industry actors is that of overall compliance. That is to say, fear of not saying something required on a call, or in an email, or in a meeting that should be said to stay on the right side of compliance rules. Because MiFID II affects everyone in the investment industry, managers and their underlying investor clients are aware of the communication rules and expect certain behaviours from the sell-side as a result:

"*To be honest, if you approach the fund manager on a phone and you didn't do it correctly you would never speak to that fund manager again because you're putting their jobs at risk. You would be black marked, you would be."* (Broker 1, 2019).

It is important to point out here that this fear is likely impacted by the ambiguity around some communication rules. This ambiguity, however, is only apparent in some cases. Giving just one example under MiFID II for pre-trade transparency, brokers have to make public the amount to be traded through their system and what interest exists in those shares. However, in certain cases, the regulatory body can waive the pre-trade transparency communication obligation if they believe it will impact the fair price of the share or disrupt a market (Busch, 2017). This kind of ad-hoc regulatory discretion is probably difficult for everyone to innately know ahead of time, so everyone errs on the side caution for fear of falling out of compliance 'just in case'. As one broker shared about managers:

> *"They're terrified of the regulations as well. I mean, if we phone them up [and] said 'oh hi' just on the quiet, everything's recorded on phones now and…everything is written down and held against…[If] you're wall-crossing that house, there are now procedures on wall-crossing institutions and if you don't follow those strictly they will actually wipe you off and never speak to you again."* (Broker 1, 2019).

This is in stark contrast to how brokers approached saying hi 'on the quiet' pre-MiFID II, being able to meet socially to soundboard with a manager or their investors to feel-out whether they would support a raise without having to make it public yet. Now, if a manager is not interested in supporting a raise, it has to be made public, potentially affecting the share price. If the share price is negatively affected, and from the participants in this study it almost invariably now is, it makes it harder for brokers to sell shares because other managers see the lack of interest from their colleagues. This was aptly described by one broker:

> *"That day of meeting for a drink in the pub and having a little chat and seeing where they are, those days are over! It's because, it's just, everybody's terrified of doing anything wrong…You used to be able to kind of market sound without making it a formal procedure you can't do that now."* (Broker 1, 2019).

Brokers and analysts have therefore adhered to strict communication rules which impacts the overall dynamic of their relationships, in particular, relationship closeness with managers.

The reason relationship closeness is important refers back to brokers' use of dual process models of persuasion. While research acts as a central route to persuasion and is therefore key in influencing manager decisions, peripheral routes such as rapport and credibility that help form trusted relationships act as primers to place that research. MiFID II directly impacts that ability to foster a relationship, from rapport to friendship, which brokers rely on in selling shares:

> *"[Brokers] call up their friends, they're…shooting to people they know at different institutions around London."* (Analyst 5, 2019).

Brokers call on those they have relationships with because it is easier to persuade those they know. Even with the change in research delivery, relationships have been lauded as paramount because it is still easier to call someone you know well, someone who you meet socially and have a relationship with, than someone you do not:

> *"Right across the stock broking industry you know it's a people business and relationships, personal relationships, longevity of relationships etc are still really crucial, and that's part of the selling job! You know…cultivating those relationships [are] absolutely critical, absolutely critical."* (Broker 2, 2019).

From this perspective, brokers have expressed their experience of the negative influence that MiFID II has had on their relationships, stating that the regulation has made it more difficult to know or influence their target audience:

> *"…what the regulator's doing is saying that you shouldn't have any relationship with the person you're dealing with, but then it's completely counterintuitive in terms of human nature because why would we want to, why would I, buy shares from someone I don't know, and…what is an interesting point is in going forward, how does a broker ever get a relationship with a fund manager if he can't ever talk to him on a social basis."* (Broker 3, 2019).

As pointed out by participants earlier, better brokers know their managers and are friends with them, helping them know what kind of investment the manager is interested in. The experience of participants in this study showcases their fear of losing relationship closeness, which from their perspective, introduces obstacles to know or influence manager decisions. Brokers cannot utilize the same peripheral routes in the same way nor engage in rapport or relationship building social activities that were normal until MiFID II. Even going for lunch is seen as a 'no-no' by the regulation, with managers opting out of anything that could be construed as an inducement to trade as one broker commented:

> *"They (managers) won't go for lunch; they're not allowed to have entertainment anymore."* (Broker 3, 2019).
>
> *"MiFID II came in [and] there's things like gift registers now fund managers, most fund managers can't accept a gift over 25 pounds of value."* (Broker 3, 2019).

In addition, with such emphasis being placed on trust and credibility built from relationships in this people business, it is no surprise that this fear has changed social interactions into phone calls:

> *"Post MiFID II the fund managers are less inclined to be sold to…they will talk to us but don't usually come out and yeah they don't want a long meeting they just take a call now."* (Broker 3, 2019).

As mentioned earlier in explaining the post MiFID II relationship, one broker likened their relationship to visiting the dentist – a necessary and ongoing formal or business relationship because a person needs a dentist for good teeth and dentists need patients for their livelihood:

> *"It's a bit like your dentist you know? I mean you might not like him personally but that's not to say he doesn't do a reasonable job for you and you stick with him"* (Broker 3, 2019).

Relationships, then, have indeed become more formal from calling friends to a mutually beneficial transactional relationship.

In summarising fears relating to MiFID II, they have been felt under the themes of revenue, research, communication, and relationships. Brokers have experienced a drop in revenue due to the stop of soft-dollars as the delivery vehicle for research. In addition, the industry has seen a drop in research quantity which in turn, has also impacted revenue contrary to the objectives of MiFID II. Industry actors are particularly fearful of compliance rules which has been felt and lived through on both the sell-side and buy-side. For these fears, speaking out of turn may jeopardise everyone's job, so much so that managers will forego an existing relationship if brokers do not abide the compliance rules. This is not to say Brokers do not call or seek to meet with the managers they have built relationships with over the years pre-MiFID II, quite the opposite. Indeed, the data shows that getting 'in front' of MiFID II by leveraging those pre-existing relationships ahead of the regulation change has been an important strategy for brokers and analysts in securing payment for research. The changes in overall communications, however, have spilled over to affect the business relationship, with managers even opting to abstain from meetings in case it requires paying for something up front. Additionally, managers are foregoing any social interaction such as meeting for lunch for fear of falling out of compliance. From the perspective of brokers then, conducting business is a 'day-to-day nuisance' that is 'tricky' and 'harder now' than it was before. Not just from a persuasive standpoint of gaining manager interest through giving away the research, but in every day communications aimed at cultivating and maintaining relationships with managers from what was formally socially driven.

4.8 Summary of research question 2

In summarising the analysis for research question two, the data in this study shows that the status quo of methods of persuasion used by brokers to influence manager investment decisions have been challenged by MiFID II, but not equally for all brokers. Common methods of communication such as calls, emails and meetings are still utilized, as is the RNS for news, roadshows meetings, the story to gain initial interest, and research to ultimately influence an investment decisions. These indeed emerged as themes in research question one regarding broker tactics. Things are less even for brokers who employed a pay-to-play model for placing research before MiFID II. For these brokers, fear of losing soft-dollars to place research was not felt to the same intensity as brokers who had relied on soft-dollars to place research and the resultant trading commissions as a source of revenue.

The most notable change to social norms has been the change in research delivery vehicle. With MiFID II stopping the longstanding practice of soft-dollars, brokers have been tasked with selling research to sceptical managers who have to justify the expense from dedicated research funds as a transparency measure to their investor clients. This is compounded by research costs showing on their profit and loss statements, impacting their fund profitability. Interestingly, while this change is not well received by the investment industry, research has maintained if not elevated its position in the investment process with managers relying more on research to make informed decisions post MiFID II. This is in part due to the compliance measures that have negatively impacted the relationship closeness between brokers and managers. Brokers cannot induce managers to trade through the use of entertainment nor meet socially such as at a bar or for lunch to informally gauge manager interest because it falls outside of MiFID II compliance.

In general, fears associated with the MiFID II are rooted in the unknown. Participants feared loss of revenue, for example, because it was unknown how they might monetise a commodity that had been previously given away for free. Similarly, it was unknown how the new compliance measures might affect their relationship closeness when it had been a norm for brokers to have social relationships with managers to better understand their targets. Interestingly, fears around research impact, revenue loss, and relationship closeness were well founded. MiFID II reduced the amount of available research, reduced revenue by stopping soft-dollar trading commissions, and due to the inability to meet managers socially for fear of falling out of compliance, experienced a loss of relationship closeness.

4.9 Analysis of research question 3

3. In what ways have methods of persuasion used by brokers toward managers been impacted by the inauguration of MiFID II regulation change?
   a. How has MiFID II facilitated changes in the use of confidence, source credibility, rapport, and social proof through common channels of communication between brokers and managers?
   b. What practices are starting to replace soft-dollar arrangements as the vehicle for brokers to provide sell-side research as a key influencer for manager investment decisions?

Discussed thus far, the data shows a shift away from brokers relying on social relationships and soft-dollars to place analyst research as persuasion methods to influence manager decisions. The data also shows that tactics such as the RNS, roadshows, the story, and research have continued as activities despite the change but have inherently been adapted to suit the new environment. The RNS still contains the news flow but responses to news now requires additional analyst input in preparation for brokers to use that news with managers. Roadshows still happen at least twice per year and other times to suit, but now include additional cost information and meetings are publicised. The story is still used but is more heavily scripted and takes longer to generate in terms obtaining legally verified information. Research remains a key aspect of influencing manager decisions but has a handicap in the way it is now delivered compared to pre-MiFID II. Though fewer analysts are covering companies, their position as an authority remains strong if not elevated post-MiFID II. This is especially true with managers having to rely even more on analyst research now they cannot consume it for free, choosing to just transact with their trusted broker friends, contrary to MiFID II aims. Common methods of communication such as calls, emails and meetings have also continued albeit on recorded lines and with greater compliance measures which has affected their relationship closeness.

In addition, industry, and individual level fears around revenue loss, reduced research coverage, communication barriers, and relationship closeness from MiFID II compliance have been experienced as expected. This industry disruption carries with it a negative sentiment or disapproval from industry actors. This is particularly true for brokers who used soft-dollars because it makes their job more difficult. The objective to sell shares to managers is still the same, but the road to get there is considered tricky, harder and a nuisance. These experiences have been the result of some intended and some unintended consequences of MiFID II, which have changed the way brokers and analysts can interact with managers or their underlying investor clients. This next section looks at how these persuasion methods have been impacted overall, followed by a deeper discussion about the use of confidence, source credibility, rapport, and social proof in a post-MiFID II landscape. Lastly, new, and existing practices are discussed in relation to placing research to maintain its persuasive position for manager decisions.

> ***In what ways have methods of persuasion used by brokers toward managers been impacted by the inauguration of MiFID II regulation change?***

In thinking about this question, it is good to remember that the main goal of a broker is to sell shares. Brokers achieve this by keeping the company story alive and interesting, gaining interest in new issuance, and generating ongoing interest in that stock to keep the share price steady. This has not changed post-MiFID II:

> *"The corporate broking side is about marketing that story…keeping that story alive in the market, so always trying to make sure the share price is steady."* (Broker 1, 2019).

Similarly, who a brokerage looks to hire as a broker has not changed post-MiFID II:

> *"I've seen people who you know will just come in they're a bit too academic…I've seen very clever people with the wrong personality maybe they're a bit introverted…where you need that sort of personality that can engage the clients. They have to be someone I think that the clients want to speak to you know the 'I like speaking to that guy'…somebody who comes across as you know trustworthy, diligent, will have done the work that the client*

knows they can trust but has got that sort of engaging personality that attracts them to them in the first place." (Broker 2, 2019).

If anything, the desire for brokers who can be even more resilient to a sceptical manager while being engaging and compelling with a compliant story to gain manager interest has increased. It is also the role of the analyst to write research to further that story in enough detail to influence manager investment decisions:

> *"The focus for us is to get ourselves out there [and] write research that would resonate well with the [manager and] end investor."* (Analyst 1, 2020).

The role of brokers and analysts, then, is still to be the leading commentator on a stock. It is also the role of the manager to buy shares. Managers cannot buy cars or racehorses, their 'win' as one broker described is to buy shares:

> "Y*ou…gotta remember that they [managers] have to buy shares…they can't buy racehorses or cars you know…their win is just to buy shares…"* (Broker 3, 2019).

This question begins with this set of reminders to underline that regardless of MiFID II regulation, companies still list, brokers still sell shares, and managers still buy them. It is for this reason that activities such as roadshows happen, or more importantly, that the use of research is still key to guide manager decisions:

> *"It's all about trying to join the dots, come up with a view or a thesis and then drive home the key messages that come from that piece of analysis…investment managers will [then] be able to navigate a situation."* (Analyst 1, 2020).
>
> *"Fund managers…use our analyst notes [for] their guidance…we literally just open that door to them and give them the ideas, they choose whether they want it."* (Broker 1, 2019).

For managers to stay on the right side of regulation, however, they have to pay for up front to access that guidance. As the data has shown, brokers, analysts and managers have strict rules to adhere to for the provision of analyst research and their daily communications. Research delivery, then, is the obvious method impacted, but the less obvious one is time. The reason why time is being cited here and not compliance is because time is the result of the compliance measures. MiFID II has slowed the overall investment process with increasing the time taken for brokers to generate initial interest with the story through phone calls, emails, meetings such as roadshows, and other common communications. It has also increased the time taken to place research with managers. Managers too are undertaking their own verification of story and research information, further slowing the process down. Time is also something brokers, analysts, and managers do not have an abundance of. When calling one particular brokerage house looking for study participants, they hung up the call after stating "we're busy" when they realised it wasn't someone they could transact with. With this in mind, the following will look at how research, the story, and common communications for a transaction have been impacted through the theme of time.

4.9.1 Theme: Time

An observation from participants is that MiFID II has drastically impacted the time in which an investment deal can occur, especially for new share issuance of an IPO. This slowing down of the investment process is a function of two things: the change in delivery vehicle for research, and compliance measures for communications. Together, it takes longer to warm up an investor, longer to prepare for daily calls, longer to produce the story, longer to produce research, and longer to place that research. In addition, once a manager is interested, engagement agreements have to be drawn up that outline which analyst can talk to which manager for which research product:

> *"If there isn't an umbrella agreement with an institution then we can't even speak to them. So you have to have that service agreement in place before any communication can take place and that agreement might only cover one particular area within that firm…we're only able to talk to one team so there are various barriers."* (Analyst 2, 2020).

Taking each of these in turn, according to participants, it can now take months to warm up a manager and their investor clients. This is because the buy side is now carrying out additional verification themselves before making a decision:

> *"It takes time to warm up an investor and as regulations are getting stricter and stricter there are things like some companies, some investors won't invest in a company unless they've done a site visit and that kind of tick-box in their due diligence so sometimes it can take several months to warm up an investor and give them time to do their own work on it."* (Broker 1, 2019).

It is also because managers are not allowed to have social relationships with brokers post-MiFID II, decreasing the level of trust the already sceptical managers place in the sell-side:

> *"If companies have less access to capital markets because fund managers know less about them and can trust a broker less, then who's the winner of that? I can't see anybody winning on that basis…why would you buy something you know nothing about?"* (Broker 2, 2019).

It is only logical that managers are more apprehensive about an investment deal when it requires an upfront payment for information not already publicly available, and from someone they are not encouraged to know socially.

In relation to calls and meetings, participants explained that the beginning of their days are consumed by early morning meetings to be up to speed on compliance measures as well as the verified headlines from their analysts. Brokers are now also required to be up to speed on all compliance measures before making calls which are very time-consuming:

> *"Well, we'll organize [a] meeting [and] we'll…present their story. Now in the meantime…a lot of compliance will have happened so sales in order to arrange that meeting we've got to go through a lot of compliance procedures you know*

which is very time-consuming. In addition to our selling job…we're [now] selling the company's research, and selling the company's corporate deals, and selling the company's trading ability [so] salespeople have to be very up to speed on all the compliance related issues…we will wall cross the institution; we will tell them over the phone on a recorded line that the meeting you're going to have on Tuesday next 9 a.m.…we have to make sure we've logged all of that, that we've logged that we've wall crossed them, we've logged that with our compliance. The client (manager) has to log that with their compliance…[there's] strict compliance procedures around that meeting…salespeople have to spend a lot of their time making sure that all the compliance procedures have been followed in relation to that meeting." (Broker 2, 2019).

Placing the research comes as a new sales task for brokers, requiring brokers to spend newly carved out time during the day to promote and sell their firms' research which has to be logged by compliance teams on both the sell-side and buy-side before a deal can really progress.

The story and research production are intertwined and are grounded in the need for additional legal verification. Brokers have to ensure that nothing has been 'made up' in conversation to entice a manager to invest. Similarly, with calls, emails and meetings being recorded, transcribed, and made public, brokers are on the 'hook' for anything they say on a call:

"We're absolutely on top of what we can and can't say because if you make it claim…which turns out not to have been true you know we're liable for that, we're theoretically on the hook for that so you know we need to be very carefully guided by…regulation in terms of making those calls." (Broker 2, 2019).

Now [it's] a bad example but [say] in terms of mining companies you…say [to managers] 'they've got this lead mine in Botswana', then you find out well they did but it didn't have the legal rights to the revenues from it. Everything has to *be verified you know so you know in order to claim that you've got that mine in Botswana, the lawyers involved will need to have seen a copy of the license that you've got from the Botswanan government that allows you to take the revenues from that mine…[now] that all has to be independently verified. Now my client (manager) isn't going to fly to Botswana to find that mine but the client will know that if it's in the prospectus then that mine exists and the company does have the revenues from it."* (Broker 2, 2019).

The story, which is informed by the research, includes a greater level of legal verification before being communicated to managers but in turn, it underscores the credibility and reliability of that research for manager decisions. A key benefit for brokers, then, in terms of utilizing confidence, is a stronger legally verified story that managers and their underlying investors can rely on:

"what you can and can't say is…heavily guided…we can only say something…that's you know been verified in the prospectus…so…investors know they can rely on it." (Broker 2, 2019).

This idea of greater story and research confidence is one way brokers have adapted to showcase themselves as an authority post MiFID II. This also leads to discussing the impact to research.

As described earlier, the way in which research is delivered under MiFID II is completely different. It requires payment up front and in general, research volume has decreased. In research question two of this analysis, participants expressed that research quantity has decreased but they felt the quality has increased:

"The breadth of research is reduced…but what I would say is…because everyone is now paying for this research the providers actually [have] stepped up a bit the quality of research." (Analyst 3, 2019).

This finding is supported in the recent literature surrounding MiFID II impact to research (Lang, Pinto, and Sul, 2019; Fang et al., 2019). This is an unintended consequence of MiFID II that both hinders and benefits brokers. One the one hand, placing research is more difficult and takes more time due to increased regulation around its creation. In addition, brokers have to overcome the hurdle of selling a product that was previously provided for free through soft-dollars. On the other hand, brokers have greater confidence in the product they are placing with managers and managers can have greater trust in the research because it has gone through that added verification process as part of its creation. Research as a method, then, though it takes longer to produce and requires greater verification, carries with it a greater weight as part of manager decisions.

4.10 Analysis of research question 3a

The notion that increased research quality helps brokers have higher confidence as well as improved credibility with managers leads into the next research question which is:

> ***How has MiFID II facilitated changes in the use of confidence, source credibility, rapport, and social proof through common channels of communication between brokers and managers?***

The focus of this question is to understand how MiFID II has aided change in the use of peripheral routes in broker/analyst communications with managers. This study has demonstrated thus far that research is still paramount, but for this question, it is the common communications that are of interest. These include phone calls, emails and meetings including roadshows. In thinking about these changes, it is useful to remember how brokers utilized these peripheral routes pre-MiFID II, and how MiFID II has impacted the way in which industry actors communicate now. Confidence, for example, was demonstrated in several ways pre-MiFID II. These included the broker having personal attributes that others perceive as authoritative, being trustworthy, affable, and engaging. These attributes helped promote a feeling of confidence to break down initial barriers with new relationship rapport as well as help foster trust from managers in existing relationships. Because managers rely on brokers for information they cannot otherwise obtain, a broker who is perceived as authoritative has the ability to win over a manager in an initial conversation, secure a meeting, then place research. In like mind, brokers felt confident approaching managers by knowing an understanding them first, such as knowing their interests and what their underlying client is looking for before picking up the phone. Participants expressed that better brokers know their managers, are friends with them, and can secure meetings if they know exactly what they are looking for. Much of the confidence gained through knowing the manager was built up over time through both business and social interactions to nurture a relationship from rapport to friendship. Lastly, brokers felt confident by being prepared, prepared with industry and client knowledge to support a neatly packaged concise and compelling story that is underwritten by star analysts. These star analysts are paraded in front of managers who know and understand that it is the analyst research that guides their investment decision. As such, both confidence and source credibility were earned this way because managers know who the star analysts are for their investment interests.

Source credibility came from several sources too, namely from relationships built over time, a history of results, and a reputation for bringing good deals to the manager's doorstep. Seldom were websites ever used to show credibility, but one specific tactic that came from brokerage houses was to grow their history of results by only choosing to take on companies they felt were easy to broker. By so doing, brokers could compound and leverage their past successes to help open the door with managers for new opportunities. Brokers also earned credibility by how they acted when something goes wrong. Making timely calls to manage buy-side anxiety or stop panic selling solidified their ability to be trusted, adding to their credibility when pitching new opportunities.

Outside of being introduced in social or casual settings, social proof was also rooted in the type of clients a brokerage takes on, feeding again into the history of results that could be leveraged toward influencing managers. In a similar vein, social proof included the appearance of many analysts following specific companies. As research showed, managers were more likely to be interested in speaking with brokers whose analysts were covering companies that many other analysts covered (Rao, Greve and Davis, 2001).

Lastly, rapport was used as a first impression tool for initial interpersonal interactions for developing new relationships (Grahe and Bernieri, 1999; Acosta and

Ward, 2011). This tool is often sustained to help accomplish various ongoing means (Fiksdal, 1988; LaFrance, 1990) such as keeping interest in a stock or raising the company profile to always be in the headlights of managers. As participants in this study shared, rapport has been more of an intuitive personality trait than anything else. Though dependent on the dyad, rapport from the perspective of brokers is the ability to engage with new client companies and managers alike to open the door for a company story and the placement of analyst research. It is to stand out and start building the kind of relationship necessary to close an investment transaction, a relationship that strengthens over time.

In addition to the above and as discussed at the outset of research question three, the structure and roles of industry actors have remained unchanged post-MiFID II. Similarly, the type of person sought after to be a broker remains the same, being affable and engaging, sure of themselves on the phone to get a meeting. Also, analysts are still considered the star football players of the investment industry and a leading authority on the stock with their research being key in influencing manager decisions. Research also still underpins the story brokers use to gain manager interest albeit with greater legal verification ahead of time. In that vein, many of the approaches used by brokers remain unchanged post MiFID II. Similarly, brokers are considered 'better brokers' if they know their managers, with managers preferring to do business with brokers they have relationships with. Combining this information with how MiFID II impacts common communications, it has altered the relationship dynamic between industry actors, in particular, relationship closeness. Indeed, much of the way in which brokers used confidence, rapport, social proof, and credibility pre-MiFID II centred around the ability to build a relationship with a manager. As participants have shared, however, MiFID II discourages social relationships with managers and requires all communications be held against strict transparency rules. This includes logging calls, emails, and recording meetings which are then made public. Relationships have become more structured, with reduced trust between brokers and managers from a loss in relationship closeness. As an example, umbrella agreements are now required before conversations can even happen between an analyst and manager, with managers expecting a barrage of compliance commentary at the outset of a phone call from a broker for fear of falling out of compliance. How MiFID II has facilitated a change in the use of confidence, source credibility, social proof, and rapport, then, is by creating a new communicative environment predicated on compliance measures.

4.10.1 Theme: Compliance

The idea that compliance has not only changed but in some contexts helped the use of peripheral routes of persuasion is an odd one. Looking in from the outside it appears to be a catch-22 in that managers want and need to speak to brokers and analysts to get information but are afraid of making a call or leaving a voicemail in case it requires a payment. Similarly, they do not want to pay for research up front but need it more now than ever to make informed investment decisions. However, interview data shows that compliance has created new normative behaviours, which in turn has afforded brokers a way to adapt and leverage adherence to compliance to help build rapport, show credibility, promote the position of analyst research, and feel prepared when making calls, all standing as a point of confidence when communicating with managers.

Social proof seems to be the odd man out in this theme but there is a reason for it. Compared to how brokers used social proof pre-MiFID II, the ability to have a social introduction from industry friends has been removed. Similarly, research coverage has actually decreased post-MiFID II so managers no longer have a steady stream of analysts covering many companies to know which ones to follow themselves. What has replaced social proof, however, is a new normative behaviour of compliance expectations across common methods of communication. The reason why compliance expectations is a normative behaviour and not social proof is because of the type of conformity it is. Social proof directs others to choose what they think is right in times of uncertainty, or to conform when they assess others' interpretation of an ambiguous situation as more 'right' than theirs (Aronson, Wilson, and Akert, 2005). There is no ambiguity, however, in how MiFID II expects communications to be made transparent, public, and logged with compliance teams and regulatory bodies. Indeed, MiFID II demands it as part of the regulatory change. The compliance expectations, then, are part of a new normative behaviour. That is to say, conformity to fit into a particular group (Reiss, 2012). Brokers, analysts, and managers are all part of this group whether they like it or not. As participants in this study stated:

"that's what we do now, it's all part of the job." (Broker 1, 2019).

This kind of conformity, then, is to tick the MiFID II communication boxes to ensure people's jobs are not at risk. Brokers and managers alike ease that fear by conforming to new behaviours which has turned into a new industry expectation:

> *"We all easily adapt [and] the fund managers expect it, so when we phone them…they want to hear it because they feel [the] compliance, [that] everything's above-board, and it's the only way we can do business. And if you don't do it correctly, they will be absolutely furious with you. To be honest, if you approach the fund manager on a phone and you didn't do it correctly you would never speak to that fund manager again because you're putting their jobs at risk. You would be black marked, you would be."* (Broker 1, 2019).

The notion that brokers easily adapt fits into the way they view themselves, having a different conversation with different managers depending on how they read the situation. It is no surprise, then, that they have adapted the way they utilize peripheral routes under such a tightly regulated communication system.

In looking at the other peripheral routes of confidence, source credibility and rapport, brokers add to their persuasion arsenal by showcasing compliance adherence at the outset of their everyday communications, as well as by promoting their analyst position, and research. Taking rapport as the first route, MiFID II has drastically impacted the ability for brokers to build rapport through 'traditional means' such as social interactions. Based on the history of soft dollars, these would include dinners, lunches, chats at a bar or coffee shop, racing, or more exotic types of entertainment. Additionally, rapport in the sense of initial friendly conversation is discouraged with every communication being logged with compliance teams and publicised on both the sell-side and buy-side. As can be seen from the data, however, rapport of one sort can be attained through channelling compliance adherence at the outset of a conversation the way managers have come to expect it. In fact, managers want to hear it from brokers at the beginning of a call otherwise they are willing to end even longstanding relationships with brokers as it threatens their jobs. Though compliance scripts are not 'friendly' conversation, this is one way an engaging, affable, confident broker can still use rapport as a tool to overcome the initial communication barrier interjected by MiFID II before focusing on telling a compelling and legally verified story.

This same strategy is useful in promoting source credibility. While taking on companies that are easy to broker for a history of results is paramount, and while timely communication when something goes wrong is integral to long term relationship management, managers want to hear that brokers are being compliant in everyday communications. This is supported in this study knowing managers are afraid they will have to pay something if they interact with an analyst out of turn. If an initial call states how they are meeting compliance at the outset of the conversation or present an umbrella agreement up front to open future communication, there is less anxiety about falling out of compliance with regulatory bodies. A broker that builds a reputation for having such compliance measures in place to make it easier for managers to operate is more likely to secure a meeting than one who does not. Another way brokers can show credibility and with it, confidence, is through the promotion of quality research by their analysts. With fewer analysts following fewer companies producing fewer research notes overall post MiFID II, managers now rely even more on research. Brokers are aware of this and aptly view it as a valuable commodity:

> *"We can only sell our research to institutions that agree to pay for it because obviously it's a valuable commodity. It can't be lumped in with other services [now]."* (Broker 2, 2019).

with it taking a bigger role in the decision process despite its scarcity overall:

> *"Well it (research) will play a bigger role but there's less research about."* (Broker 3, 2019).

Brokers can therefore leverage who their analysts are and the research they produce during calls from a position of authority.

An industry practice that helps with this promotion of analyst industry position is the analyst voting system. With a strong ranking, brokers can reference their name and their research from a position of authority. In asking how this has helped in a post-MiFID II environment, one participant was incredibly happy with the outcome of their vote result as it helps bolster their credibility as a research provider:

> *"We seem to have hit the ground running [and] caught everyone's attention, and got the votes, and secured the number one ranking…so you know, really pleased for that, really pleased."* (Analyst 1, 2020).

The issue with this, however, is that the only people who can vote on research are those who have paid for it. This creates another catch-22 obstacle for brokers in that they first have to sell the research to get analyst votes, then leverage their analyst ranking to sell more research. In the eyes of participants, MiFID II has made a mockery of the practice:

> *"The votes I get can only really be given by the people who read my research so it skews, it makes a mockery of the whole you know, the whole analyst voting process really. Because if another firm has got a quarter of the number of relationships [than] us then that's immediately a disadvantage isn't it. So, it's no longer about the quality of your research it's as much about how many people actually consume your research and then would be willing to vote for it. Yeah, I think its um I think there's a lot of unintended consequences with any regulation."* (Analyst 1, 2020).

The only way this catch-22 has been transcended is through leveraging pre-MiFID II relationships. Indeed, this strategy to leverage pre-existing relationships is one tactic brokers have used to prepare for industry change brought by MiFID II. This tactic, however, may only apply to those with pre-existing relationships to leverage, and may account for the drop in industry growth for new research providers contrary to MiFID II aims. Greater investigation would be required, however, to know if this is the case.

The next peripheral route to discuss in relation to common communications is confidence. It has already been shown that post-MiFID II, promoting analyst position and research quality from a position of authority are ways to exude a sense of confidence and source credibility when communicating with a manager. Another way to show confidence is through compliance preparation. This includes taking adequate time each day to ensure up to date knowledge of compliance measures, logging communications with compliance officers. As one broker commented:

> *"Salespeople have to be very up to speed on all the compliance related issues…we will wall cross the institution…we have to make sure we've logged all of that, that we've logged that we've wall crossed them, we've logged that with our compliance…salespeople have to spend a lot of their time making sure that all the compliance procedures have been followed."* (Broker 2, 2019).

Coupled with taking the extra time each morning to be armed by analysts with the legally verified tenets of the story, brokers feel confident in what information they can and cannot communicate with a manager at any one time before picking up the phone.

The last way brokers can show confidence post-MiFID II is through promotion of any existing pay-to-play research model. Those brokers who maintained a pay-to-play research model prior to the regulatory change effectively mitigated revenue loss fears from unbundling services because they were already unbundled. While they experienced hardship in other areas, such as longer sales cycles due to compliance measures, they did not have the same worries when it came to research cost transparency. Indeed, as one participant commented, when it came to MiFID II and research sales, they felt covered:

> *"We are not like most brokers…our…clients have always paid…for [our] research…so because our [clients] pay for the research we fall into the MiFID II category, we're kind of covered there, so it hasn't really impacted [us]*." (Broker 1, 2019).

The reason this is such a strength for brokers using this business model is down to its use in common communication channels like phone calls. Pre-MiFID II, when a broker called a manager who bundled services, research was provided for free in exchange for using their trading services. The 'cost' of research being hidden from the eyes of the underlying investor and paid for in secondary trading commissions. Post-MiFID II, that same broker has to overcome the obstacle of selling the research, selling the capabilities of their analysts, and come up with ways to offset the loss in revenue from secondary trading commissions previously obtained from the soft-dollar practise. A brokerage house who always charged for research upfront, however, has a different mindset. The managers these brokers call already know they charge for their research up front so there are no new obstacles to overcome, and no impact to their existing relationship for research provision. Whatever obstacles were in the way originally in order to sell that research were overcome before any MiFID II regulation came into effect. In summary, by being unknowingly prepared, these brokers benefit from being able to showcase their already established business model as a differentiator against their competition. This acts as a compliance marketing tactic despite the negative experiences and impact that MiFID II has brought to brokers' daily lives.

The use of compliance marketing as a tactic leads into the last portion of research question three centred around new industry practices. The scope of this question is on the replacement practices that brokers are now using to provide analyst research but as this study has shown, the biggest new practice as outlined by MiFID II is to simply charge for it up front. In some instances, this is business as usual for brokers who already charged for research pre-MiFID II. There are several new practices, however, that help brokers place analyst research that go alongside charging for it. This includes practices that facilitate the selling of research under MiFID II, and some practices that side-step the regulation altogether to maintain soft-dollar use. The latter is due to some of the unintended consequences of MiFID II already discussed.

4.11 Analysis of research question 3b

These new practices will be the focus of this last research question which is:

What practices are starting to replace soft-dollar arrangements as the vehicle for brokers to provide sell-side research as a key influencer for manager investment decisions?

When examining the data related to this question, one main theme emerged around placing research as a key influencer for manager investment decisions. This theme was cost. The new practice itself is selling research, but the theme of cost is broad and includes all activities for achieving compliance to sell that research and reduce overhead. It also includes activities to avoid compliance costs due to managers not wanting to take on the cost of research. In general, however, cost as a theme unites the compliance and other related activities that allow brokers to eventually place research with managers. In some ways, cost could be considered a new practice in and of itself. The following section looks at how cost has really been the driving factor in formulating new practices to replace soft-dollars in the placement of research.

4.11.1 Theme: Costs

The reason why costs emerged as a theme for practices replacing soft-dollars is because MiFID II compliance is hard. In order to succeed at selling research, brokers and analysts had to succeed at attaining compliance which incurred considerable cost. Interestingly, the data in this study shows that though industry actors had years to prepare for MiFID II, it was still difficult. They also maintain a negative opinion of the change to their status quo. For brokers, it is tricky, harder, and more difficult to operate now, and they have lived through their fears of reduced revenue, reduced research coverage, and loss of industry knowledge despite their preparations. Even brokers who already charged for research have witnessed a drying up of knowledge and a strain on their daily lives with compliance, transparency, and reporting requirements. Indeed, the literature shows that MiFID II implementation has been rife with teething problems around cost and transaction transparency reporting, as well as best execution or best price for research (Yeoh, 2019). As one participant described:

> *"It was quite difficult for some people to understand how to operate under the new rules."* (Analyst 1, 2020).

In addition, the impact to relationships has been problematic for many, with it being viewed as contrary to 'human nature' to deal with those one has no relationship with. This has made it more difficult for brokers to know and work with managers. That is to say, former relationship closeness that fostered brokers the ability to place research more easily has been curtailed post-MiFID II and brokers are not thrilled by it. In speaking with another participant about their understanding of MiFID II, their first response was to suggest looking online:

> *"MiFID II is [a] big regulatory change for sales…there was no regulation around the selling of research but now [with] MiFID II…Google MiFID II, I mean there's just thousands of articles there…the main import of MiFID II is…MiFID II means that we can only sell our research to institutions that agree to pay for it."* (Broker 2, 2019).

The fact that participants had spent time looking at MiFID II on search engines in addition to whatever industry body, lawyers, and compliance officers had explained to them already relayed just how difficult compliance adherence has been despite demonstrating an understanding of what it was for. In conducting some rudimentary searches online about what brokers may have been looking for, simply typing 'MiFID II' into Google on a Chrome web-browser returned 4,070,000 results in 0.52 seconds (see Appendix A). Other searches are summarised in the table below:

Search Term	*Search Results*
MiFID II compliance	1,460,000
MiFID II compliance firms	282,000
MiFID II compliance help	1,380,000
MiFID II legal firms	605,000
MiFID II solicitors	109,000
MiFID II impact	1,010,000
MiFID II compliance costs	2,480,000

The volume of search results supports the evidence that industry actors have found this transition difficult. For them, it truly is 'tricky' now, it is harder, it is difficult to digest, understand, implement and even harder to keep compliant under MiFID II. This is especially true with some lingering ambiguity around what qualifies for a waiver on communication transparency, or what constitutes research with managers avoiding leaving voicemails in case a return call is considered advice or outside the allowable communication. Combined with the sheer size and complexity of MiFID II regulatory changes, these difficulties add up to the reason why cost itself is also a new 'practice' to help place research.

To overcome these difficulties, then, brokers have incurred costs. Costs for legal sign off on a piece of completed research, costs to validate the tenets of the story before brokers can present it to managers, costs for compliance measures around allowable communication with brokers, and costs of drafting umbrella agreements for those communications. In addition, there have been costs for added legal verification measures around research production such as visiting distant offices and validating all claims made by the company; reporting costs to industry bodies appointed to accept and publicise conversations, emails, meeting notes, and details about proposed investment deals (Busch, 2017). There has also been a switch from analyst overhead to compliance overhead costs with large compliance teams now employed to ensure compliance is met. In addition, there are added training costs for brokers and analysts to be up to speed on compliance related matters before even picking up the phone to a manager. The new activities that brokers and analysts have adopted outside of selling research, then, is really the practice of compliance cost to facilitate selling research up front. In fact, while speaking with one participant, cost is exactly their response on persevering through MiFID II to place research:

> *"I'll tell you how we've done it?!! we've done it by spending money! sadly! compliance costs have risen very sharply…each firm [used to have] a kind of small compliance department tucked away in a room, now we've got ya know very qualified lawyers who work in our compliance department and lots of them! So you know one of the issues for our industry is [the] cost of regulation has risen dramatically."* (Broker 2, 2019).

These increased compliance costs have benefits, however, with more detailed and therefore more reliable research:

> *"You know even in terms of writing the prospectus (research), the prospectus is a much more detailed document than that used to be and requires different layers of signing off so we've got to spend a lot more on lawyers, on accountants, on cross-checking, on legal opinion, and our in-house lawyers before issuing anything public…we've got to employ a lot more people internally in the compliance department than we used to…legal people who review documents, lawyers who will work for us exclusively etc so a big trend in the industry has been that compliance costs have risen dramatically…that's put a lot of pressure on profitability and the same is true in the fund management industry ya know their compliance costs have risen dramatically as well so that's put pressure on margins for Banks, Stockbrokers, Fund managers, the entire industry."* (Broker 2, 2019).

Following these time-consuming activities, which are also an opportunity cost in terms of time, brokers can go about their more normal daily tasks of making phone calls with newly inserted expected compliance scripts, pitch the story, set up the meeting or roadshow and with it, sell the research. The end, however, justifies the means in which brokers know and understand that underneath the relationship, and on top of the added costs to finally sell research, it is the research that impacts the final decision. The data in this study has shown this is truer post-MiFID II. Similarly, managers have come to expect brokers to engage in broker compliance marketing to showcase their compliance adherence at the outset of common communications. An unknown benefit of which is greater verifiability and therefore reliance on, analyst research for investment decisions.

Before moving on to the next section of new practices that avoid such cost, there appears to be some misleading information about one practice around placing research. Some existing research including various new articles state that managers are choosing to absorb the cost of research themselves (see Mooney, 2017 and Yu, 2017 for examples). The framing of this research leads the reader to believe managers are taking the cost of research out of the equation allowing brokers to continue to provide research for free. MiFID II, however, requires research to be purchased at market rate. Managers ‘absorbing the cost’ of research simply refers to the purchase of research through dedicated funds that show on their profit and loss statements instead of passing this cost to unknowing investor clients through soft-dollar arrangements.

Another practise that should be mentioned before moving onto cost avoidance practices is the leveraging of pre-existing relationships to secure research payments ahead of the regulation change. This practice is rooted in MiFID II preparation rather than a practice that has replaced soft-dollars, but it is a viable tactic that participants in this study took to offset the impact of MiFID II. As the literature and data in this study show, relationships are important in influencing decisions (Kanate, 2010). In the investment industry, relationship closeness increases the effectiveness of peripheral route primers while the central route of research influences the final decision. The relationship, though, is effective in getting managers on sell-side reading lists and from a consumer perspective, people are more likely to continue purchasing from a source they have a relationship with (Kanate, 2010). In speaking with participants, they expressed this tactic has been particularly useful in overcoming some of the negative impact to their existing relationships under MiFID II, which has also aided their ability to establish themselves as a leader in research provision:

> *“The concern for me as an analyst…to have to see something like MiFID II was that you know did enough people like my research enough to pay for it having received it for free?…managers weren't even kind of used to the concept of paying for research and [they] just you know consume whatever they signed up to and [did] not really think about how costs were bundled or not…but to then ask managers to get the cheque book out and write a cheque every year to pay for research well that that was a big change, so my concern was that we absolutely had to try and retain as many of those client relationships as possible and kind of be if you like in the ring fence when that decision was being made. Wind forward to today we have retained I'd say almost a hundred percent of*

the relationships that we had before now, and we've actually grown that research relationship further, so we've actually gone well beyond the figure of number of firms that we had relationships with prior to MiFID II…we're really on the front foot with that regulatory change and that's put us in a brilliant position." (Analyst 1, 2020).

The same participant goes on to say of this tactic:

"The focus for us [was] to get ourselves out there and to write research…well in advance of that regulatory change so that when you actually turn round to someone and say 'guys this is coming would you be interested and willing to pay for the research?' then they were saying 'absolutely yes no problem it's um you know service we want and need' so it did help…get us a good bit of MiFID II runway." (Analyst 1, 2020).

The approach to prepare for MiFID II by massaging those existing relationships has allowed brokers and analysts to pre-empt the impact to their relationships. While this practice does not replace the practice of soft-dollars to place research, it bolsters their position as industry leaders, reduces the obstacle of adding research sales to a brokers' daily tasks, and factors into a wider credibility and confidence in the market as research providers. This even lends to the notion of social proof, where if one firm can be seen as providing more research to managers than others, other managers are more likely to follow suit. Those who do not have the existing relationship, however, are immediately disadvantaged using this approach.

Though not investigated in this study, it would be interesting to know whether this tactic or practice has long term application. In a study conducted by Kanate (2010) about relationship marketing to influence the sale of securities in Asia, for example, the study found that people were influenced more through dealing with an individual than with a particular firm (Kanate, 2010). Similarly, with MiFID II making relationships between brokers, analysts, and managers more transactional with communication and reporting compliance measures; as well as the natural turnover of professionals in any industry over time requiring new relationships to be formed, it is likely that the effectiveness of this tactic or practice diminishes over time. Additional study would need to be completed to test this further.

The second part of this theme relates to the avoidance of cost to place analyst research. This includes offering free trials of research products to help in the sales activities of brokers post-MiFID II, and brokers adding private capital raises to their service offerings where MiFID II does not apply. The first of these is offering a free trial. In the consumer research, offering a free trial has been shown to accelerate the acquisition of new customers as well as expand reach into customer prospecting that would otherwise not have bought the product had no trial been offered (Bawa and Shoemaker, 2004). In other research, long-term retention of trial-only customers is brought into question versus pay-up-front customers (Datta, Foubert and Heerde, 2015). There is consistency in findings, however, that trials open up opportunities for both sales and new business relationships that would otherwise not be afforded. Similarly, the consumer research literature indicates that businesses are able to influence repeat purchasing behaviour following interactions with a person and product (Jacob, 2015). With this in mind, brokers or analysts who offer a free trial of research to managers have an opportunity to build a new relationship and influence the future purchase of a research product to managers. As one participant described:

> *"If we don't have a relationship [or umbrella] agreement, there is I believe a carve out that allows us to provide a free trial of the product, and then they can determine from that whether they think it's adds sufficient value to justify having a long-term supplier arrangement in place…Before MiFID it was never required because everyone got everything for free and the business model was driven more perhaps by ensuring the widest possible distribution."* (Analyst 2, 2020).

Interestingly the change in business model from widest distribution to more targeted research offerings supports why research coverage has decreased post MiFID II. Analysts are only writing on companies that managers are willing to pay for, even when offering free trials. While some consumer research suggests a free trial can cannibalise existing sales efforts (Bawa and Shoemaker, 2004), the relationship marketing research shows that the pre-existing relationship itself influences repeat purchase behaviour (Kanate, 2010). As already shown in this study, the strategy of massaging pre-existing relationships has offset potential cannibalising effects and helped retain or even grow the ability to place research with upfront payments:

> *"My concern was that we absolutely had to try and retain as many of those client relationships as possible…Wind forward to today we have retained I'd say almost a hundred percent of the relationships that we had before now, and we've actually grown that research relationship further, so we've actually gone well beyond the figure of number of firms that we had relationships with prior to MiFID II."* (Analyst 1, 2020).

The use of this free trial practice, then, only applies to new customer acquisition efforts rather than to existing relationships or with those where communication agreements are in place. One question to raise, however, is whether this practise could be a tactic to skirt compliance measures for research placement with managers. There is no current information, for example, on what kind of research constitutes a trial, how many days a trial lasts, or how much research could be included as part of a trial. There is also no information on how much research a manager or team of managers could consume during a trial if that research is sought for a particular investment opportunity. A persuasion tactic by brokers could be to provide enough 'trial' research so that a manager could make an investment decision during the trial period with the promise of purchasing research for future deals. Further investigation would be required outside of this study to answer this question, targeting both brokers and managers as participants. The use of trials seems to be considered a grey area under MiFID II (Labbë, 2019).

The last new practice that relates to cost, or avoidance of cost, in placing research is the introduction of private capital raise services. To help explain how this has become a new practice to place research, it is helpful to summarize some of the main ways MiFID II has impacted brokers. As discussed earlier, MiFID II stops the practice of soft-dollars which changes how research is placed. Post-MiFID II this is a paid service and without the ability to have social interactions with managers it adds obstacles to the process of selling it to managers. Relationship closeness is also affected where brokers and managers are coerced into a more formal relationship. Additionally, the added legal verification for the story and research production adds considerable cost and slows sales cycles. This added verification, however, does create more reliable research for managers to make decisions. The increased costs in producing this more reliable research, however, combined with other compliance measures, reduced research coverage, and loss of revenue from trading commissions, have put a downward pressure on profitability. Add to it the complexity of MiFID II requirements and the consequences for falling out of compliance, it is logical that brokers have been allured to revenue producing opportunities in private capital raises. With private capital, it falls outside of the MiFID II and with it, allows for the placement of research through soft-dollar arrangements. In speaking with a corporate broker, they advised they only get paid when the deal is done which mirrors the pre-MiFID II method of being paid for the research using soft-dollar trading commissions on the back end. The private raise approach mirrors other aspects of institutional broking with roadshows though they may be called by different names. More importantly, relationships are integral to the process and are built on trust and credibility:

> *"The first step [in selling a company] is some element of credibility…[and] the relationship, it's absolutely fundamental."* (Broker 4, 2019).

It is the lack of regulatory obligation, however, that is particularly poignant for brokers looking to place research the way they are used to:

> *"We don't [get] caught up in all the normal regulations…which is a bit of a can worms over here so we avoid it like the plague…we don't actually have any…regulatory obligation."*
> (Broker 4, 2019).

This ability to place research without regulation helps overcome the fears experienced by participants in this study around MiFID II and revenue loss:

> *"If you're private you are unregulated. There's plenty of private money around and there's zillions of private money around, high net worth, family offices, private equity funds, venture capital funds."* (Broker 2, 2019).

And when speaking with participants, it was unanimous amongst brokers that private capital was a new service line offered by their firms in response to MiFID II, or at the very least, an expedited one:

> *"The IPO world…has got quieter in the recent well actually in the past two years [so] we've been doing more private raises."* (Broker 1, 2019).

The shift into private capital raises is perhaps a natural consequence of brokers being able to adapt. As one participant described earlier, brokers all easily adapt which speaks to the personality type that suits the broker role. What this means is while brokers have adapted to the new landscape under MiFID II, they have also seen how it is more difficult to operate, and more costly for everyone including the company to go public. Further adapting has occurred by offering private capital raises:

> *"Where it (MiFID II) does affect us is a lot of companies won't become listed now because it's too expensive and it doesn't achieve the original aims of being a public company i.e., greater access to capital, and what we've done is we've actually started a private company fundraising division because a lot of companies don't come to market now, they just raise money privately…why put up with all this hassle of being listed when it doesn't help you."* (Broker 2, 2019).

Because private raises are not regulated the same way, and because fewer companies are going public along with fewer companies being covered, private capital offers the ability for brokers to maintain the pre-MiFID II status quo of soft-dollars without the added compliance costs. Though not part of this study, further research could investigate whether research offered by institutional firms coming into private capital is as detailed for private capital raises as it is for the institutional side. It might be that research from these analysts is already considered more detailed than research provided by private brokers simply because private capital has not been subject to the same level of regulation or legal verification as institutional broking.

In summary, several new practices have replaced the use of soft-dollars to place research as a key influencer for manager investment decisions. Under the theme of costs, the leading practice replacing soft-dollar use is the selling of research to managers up front. This practice was already the norm for some brokers but for those who bundled services through soft-dollars, this new practice has incurred considerable cost. These costs are predominantly to be MiFID II compliant which has led to other practices in the avoidance of costs. Avoidance practices include massaging pre-existing relationships to offset the obstacle of selling research once MiFID II came into effect. Though it does not replace soft-dollars, it softens the transition to a pay-to-play model and is a preparatory tactic employed by some participants. The disadvantage of this approach, however, is that it decreases in effectiveness over time. Another practice in the avoidance of costs is offering free trials of research products. This seems to overcome the obstacle of communication compliance but is focused on new manager client acquisition rather than with managers they already deal with. Further investigation would be needed to find out if a manager can successfully make an investment decision based on a research trial. Lastly, brokers have sought to offset revenue loss caused by MiFID II by introducing private capital into their service offerings. Private capital is not regulated the same way as institutional broking which affords brokers the ability to continue the use of soft-dollars to place analyst research and influence investment decisions. While their target audience has changed from a manager to private client, and because research is so vital to the investment process, private capital avoids the costs associated with placing research under MiFID II. In some ways, research placed through private capital is a by-product of brokers seeking revenue opportunities to offset the impact of MiFID II and could be considered another unintended consequence of the regulatory change. Further research would be needed, however, to answer whether private capital research meets or exceeds existing research expectations in private capital. Whether institutional or private placement, however, research still reigns as the leading persuasive method brokers choose to use to influence investment decisions.

4.12 Summary of research question 3

In summarizing the data analysis of research question three, research is the most notable and obvious method of persuasion that has been impacted by MiFID II regulation change. It is important to remember, however, that the goal of brokers is to sell shares, and the 'win' for managers is to buy shares. With this in mind, many of the persuasion methods used by brokers to influence manager investment decisions remain unchanged post-MiFID II. Calls are still made, the story is still told, roadshows still happen, and research is still used. It is the delivery of research that is the change in persuasive method not the use of research itself. Research remains paramount in enabling managers to make informed investment decisions. As the data shows, however, MiFID II introduces strict rules that brokers, analysts and managers must adhere to remain on the right side of compliance. These compliance measures do more than impact the way research is delivered and generated, they also impact the kinds of communication and relationship that is permitted under the new rules. Added legal verification measures in generating research, for example, slows the investment process whereby brokers may need months to warm a manager to an opportunity. Similarly, communication rules require calls, emails, and meetings to be recorded and made public, further slowing the investment process. A broker can no longer meet a manager socially to quickly discuss an opportunity, it has to be planned, publicised, and recorded which could negatively impact share price if lots of managers get wind of a planned large share sale or upcoming IPO. In the same vein, a manager cannot discuss research with an analyst unless an umbrella agreement is in place that permits the communication. As such, formerly close social relationships have become more formal, yet necessary to transact, described by participants as akin to regularly visiting the dentist. While the interaction isn't exactly social, each provide the other with what they need.

The biggest way peripheral routes to persuasion have been impacted by MiFID II is through the use of compliance marketing. MiFID II has introduced a new communicative environment predicated on compliance measures and expectations, and brokers have adapted their use of confidence, credibility, rapport, and social proof through marketing their level of compliance. Looking first at social proof, this has somewhat been left behind. Managers can no longer use the marker of 'many analysts following a company' to decide whose research they use to make a decision because a by-product of MiFID II is a reduction in the number of analysts writing research. What has replaced social proof, however, is a new normative behaviour formed from compliance expectations that pave the way for other peripheral routes to be used in new inventive ways. Rapport, for example, while not attained in the traditional sense, can be achieved by brokers presenting a well-rehearsed compliance script because managers expect to hear broker compliance measures at the outset of a conversation. The same is true of credibility. Brokers who build a reputation for having their compliance measures arranged to make it easier for managers are more likely to secure a meeting than those who do not. The last peripheral route is confidence. The desire for confidence as a personal attribute has not changed in the investment industry pre-and post-MiFID II but how they use confidence has evolved. Brokers know they can leverage the position of their analyst and their associated research as credible due to the added legal verification obtained during its creation. The same is true of the story because it is the research that underpins its creation too. Coupled with compliance preparedness, brokers feel confident in what they can and cannot say to a manager before picking up the phone.

There are several new practices replacing soft-dollar use, the leading of which is simply selling research to managers up front as outlined under MiFID II. This new practice has incurred considerable costs in both time lost selling shares to sell research, and by investing heavily in compliance officers and lawyers to become MiFID II compliant. While some brokers never bundled services under soft-dollars, the norm was to do so. To avoid these costs, brokers have turned to three practices. One, brokers have tried to leverage existing relationships to soften the blow of asking for their friends to pay for research, citing their joint history of results as a reason to pay once MiFID II came into effect. Two, brokers have offered free trials to entice managers with the aim to gain a paying manager once the trial period ends. Three, brokers have started to offer private capital raises that avoids MiFID II altogether. While practice one as a tactic diminishes over time, and further research would be needed on practice two to know whether a manager could make an informed investment decision from a research trial, practice three effectively allows brokers to continue the practice of soft-dollars in an unregulated environment. Further research, however, would be needed to know how research is created and consumed in private capital to know how it is used to influence investment decisions.

4.13 Summary of themes

In terms of themes, several themes emerged through thematic data analysis with some themes repeating in different contexts. Relationships, for example, emerged in research question one in relation to brokers being better at their job if they know and are friends with managers. Relationships as it relates to question two, however, is about the negative impact to relationships and loss of relationship closeness, something brokers feared would happen as a result of MiFID II (see figure 1 below). In order, this study found that the RNS, roadshows, relationships, research, and the story were all part of research question one. This is not to say they are not present in subsequent parts of the data analysis, but when they first emerged. Research and revenue emerged as a joint theme in research question two as did communication and relationships. In research question three, the themes of time, compliance, and costs emerged in relation to the way MiFID II has impacted persuasion methods and daily activities of brokers and analysts in the investment industry. The following chapter further discuss these findings.

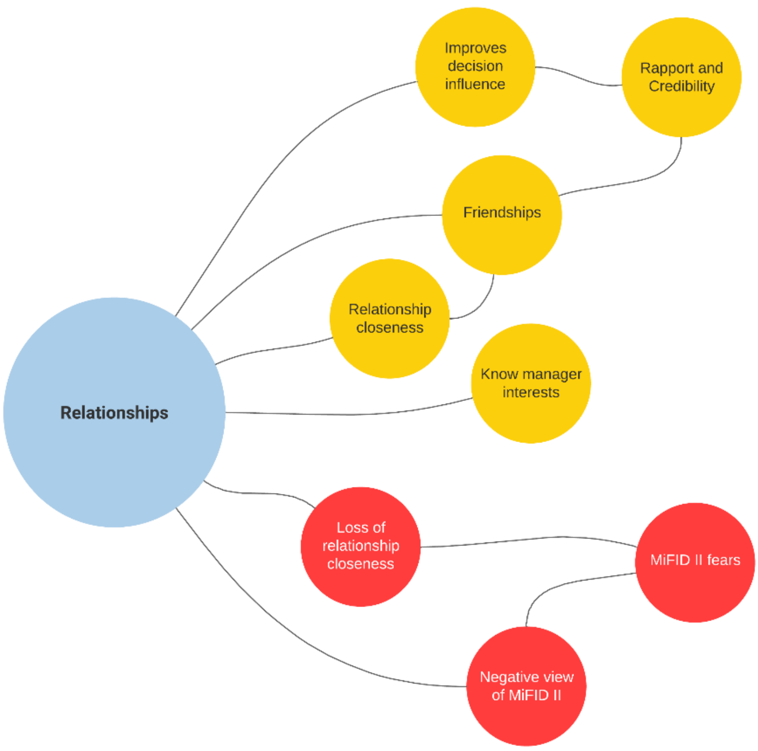


Fig 1. Diagram of thematic analysis relationship theme

Chapter Five: Discussion and Conclusion

This study investigates the methods of persuasion used by brokers to influence manager investment decisions pre- and post-MiFID II regulation change in the investment industry. The Markets in Financial Instruments Directive II (MiFID II) is a body of legislative regulation that impacts all EU member states including the UK. Its main aim is to stop the use of soft-dollars to place sell-side research and increase transparency to investors through various compliance measures. Using dual process models of persuasion as a theoretical framework, this study further examines how brokers use confidence, source credibility, rapport, and social proof as peripheral routes to persuasion, and how brokers use sell-side research as the central route to persuasion to ultimately influence manager investment decisions. It was posited that in response to MiFID II, brokers would have to adjust their existing methods of persuasion and find new ways to influence manager decisions outside of social relationships and soft-dollar arrangements. In this sense, MiFID II represents more than a set of compliance and transparency rules, it changes the nature of persuasive communications between brokers, analysts, and managers.

Two of the main contributions of this study are rooted in understanding how the sell-side influence buy side investment decisions and the implications of regulation change on industry practices. With regard to the first, a relatively small amount of research is available to understand how MiFID II has impacted the persuasive methods used by brokers to influence manager investment decisions until now. Indeed, most research at the outset of MiFID II was focused on the monetization of research from unbundling requirements, and the promotion of electronic trading platforms (Busch, 2017; Prorokowski, 2015; Meager, 2018; Sokolova and Bahgat, 2018). This study furthers the understanding of how the investment industry operates, providing a voice for the underrepresented sell-side, and contributes to the literature through applying dual process models of persuasion to specialist industries. Looking at the second, any changes to the methods of persuasion used by brokers to influence managers are presumed in response to mandated industry reform rather than organically over time. Understanding the non-transactional impact of MiFID II on the investment industry may have implications for other industries looking to MiFID II as a model for their own industry-wide reform.

This chapter begins with a summary of major and unexpected findings. Following this summary, a more detailed discussion of findings is presented as responses to each research question following the same structure as in chapter four. The chapter continues by summarising the contributions to literature, knowledge, and theory. Study limitations are then addressed and offers a self-reflexive review of the researcher. The last section points to possible areas for future research, industry implications, and finishes with concluding remarks.

5.1 Major and Unexpected findings

Several findings emerged around the role and use of research as well as the impact of MiFID II on this persuasive method. These include research being integral for managers to make informed investment decisions, less research being produced which is the major unintended consequence of MiFID II, and the use of research not changing as a persuader, just the delivery method. Research as a commodity has also increased in importance and quality post-MiFID II, with brokers seeking new ways to place research outside of soft-dollars.

In addition to research, a number of findings emerged around brokers' use of confidence, source credibility, rapport, and social proof including brokers adapting their use of peripheral routes post-MiFID II. Brokers can no longer enjoy social interactions to build rapport, for example, but can build rapport with compliance scripts at the outset of initial phone calls with manager who have grown to expect them. Indeed, successful brokers can engage in compliance marketing to proactively showcase their level of compliance to gain manager interest. Similarly, brokers add to their confidence by being prepared with a legally verified story, compliance scripts, credible analysts, and legally verified research in their persuasive arsenal. Social proof itself cannot be obtained by managers watching swarms of analysts following a company to help their decision making, but analyst position still fosters social proof based on a history of results and credible research.

Unexpected findings spanned both peripheral and central route methods including the role of the analyst in research credibility, gaining credibility for future opportunities when something bad happens in the present, and the role of research in creating the story. This study also found that MiFID II reduced competition for research providers contrary to its aims. In addition, this study found that MiFID II provided opportunities for brokers to adapt and use what this study terms compliance marketing. Lastly, as a result of the negative impact to revenue through stopping soft-dollars, brokers have sought new ways to skirt MiFID II rules including research trials and cost avoidance through private capital raises.

5.2 Persuasion tactics and persuasive routes

The data in this study shows that brokers utilize a number of tactics to influence managers across common channels of communication such as calls, emails, meetings, and research. Supported by the persuasion literature, these tactics act to modify a manager's view through presentation of a message (Petty and Cacioppo, 1986; DellaVigna, 2003). The most notable of these are the story, meetings such as roadshows, the Regulatory News Service (RNS), and by placing sell-side research with the intent to influence their investment behaviour. Of the 33 tactics outlined by participants in this study, research had 111 cumulative references making it the most heavily referenced tactic of all. Roadshows was an interesting finding because they offer more than a venue for managers to scrutinize the research prior to making an investment decision. Roadshows also serve as a relationships catalyst where brokers can build relationships with managers for future sales. The RNS was an unexpected finding of this study because it is not a tactic but a communication platform that influences tactics brokers use in response to industry news. If a company issues a profit warning, for example, it will be communicated to the industry via the RNS so that both brokers and managers see the same announcement. The tactics employed by brokers such as when to call, when to schedule a meeting, what story to tell a manager who is on the verge of panic selling, for example, has an impact to the immediate and future confidence and credibility of the broker and analyst as perceived by the manager. One interesting observation this study makes about the RNS also is while it is accepted by the investment industry as a central source for industry news, it is a culmination of news service platform changes under the London Stock Exchange that was finally announced in 1988 (LSEG, 2022). MiFID II is also a culmination of changes over time. Perhaps MiFID II will become as integrated and accepted as the RNS in due time.

Contrary to expectation, outbound cold calls are only used when a new broker is trying to break into the industry. These cold calls are typically made under an experienced broker to piggy-back or leverage the existing relationship until the new broker has formed their own connections. This would be particularly useful in times of employee turnover as found in the customer-relationship literature when customers may form closer relationships with individual employees than the companies they represent (Bendapudi and Leone, 2002). What is interesting about this tactic, however, is it shows the importance of new brokers leveraging existing relationships to build their own new one. Indeed, relationships act as the context through which persuasive tactics are employed.

In addition, one available tactic brokers do not utilize as a persuasive tool is their website. Indeed, one participant referenced their own website merely as a brochure that is superseded by a phone call or meeting to showcase credentials rather than the website itself. This is in contrast to the digital marketing literature that shows websites as a persuasive tool (Cyr et al., 2018; Alhammad and Gulliver, 2014; De Vries and Van Rompay, 2009; Kelly, 2007), and that website optimization leads to new customer acquisition (Goyal et al., 2021). It is possible that interpersonal communication and relationships are so prominent in the investment industry that contemporary uses of a website to draw interest is moot. As found by this study, brokers use calls and face to face meetings to show credibility, not a website.

It is important to note that in using these tactics, industry structure plays a part. Specifically, this applies in terms of both industry roles, and the flow of information. In terms of industry roles, brokers are still seen as the 'front-men' of the industry and are considered the 'eyes and ears' of the company clients they represent. Managers, for example, cannot approach the company directly in institutional investing, they must go through a broker. Analysts are still the 'star football players' of the industry and the reason for managers to go the football match. They are held in high regard by the industry with their research being the leading persuader for manager investment decisions. This is important in terms of the flow of information because both pre- and post-MiFID II, brokers are gatekeepers of company information not publicly available, and of analysts with whom managers depend on for detailed financial information in the form of research to make informed investment decisions.

Based on the data from this study, relationships as a theme encapsulate the way brokers utilize the peripheral routes of confidence, source credibility, rapport, and social proof to influence managers. Indeed, the theme of relationships act as a general undertone to this study. Pre-MiFID II relationships included social interactions and activities. Participants shared that they could meet managers socially to sound-board a story to gauge interest before formalizing engagement with the manager. These social interactions could occur during lunch, at a bar, a coffee shop, racetrack, skiing, or other social venue and were paramount in building rapport and later, trusted relationships. Managers, for example, are more likely to choose a brokerage with whom they have a social relationship with than someone they did not know. This is consistent with the soft-dollar literature where managers needing tickets to the opera were just one broker call away (Arjaliès et al., 2017), as well as the relationship marketing literature where market access can be gained through creating positive and lasting relationships (Berry, 1995; Berry, 1983). These relationships, however, are more formal post-MiFID II with managers fearing any social interaction as an inducement to trade. The general finding from this study, though, is that brokers who know their managers and are friends with them can be more successful than having mere formal relationships. This need for a relationship to have increased persuasive effect is supported in the literature where closer relationships are more influential on decision making than ambivalent ones (Kanate, 2010; Uchino et al., 2004).

In applying the use of relationships to peripheral routes, this study finds that confidence in the investment industry is a mixture of personal attributes, preparedness, knowledge, and perceived authority by managers. Much of the perceived authority is predicated on industry structure whereby brokers are gatekeepers to analysts, their research, and have knowledge ahead of managers. This is supported in the persuasion literature whereby persuasiveness increases when one is perceived as an authority on the subject (Van Swol and Sniezek, 2005) and that personal self-confidence increases sales ability (Zuna, Kordos and Ivandija, 2021). This is not all, brokers place a lot of weight in the story as it is the first thing brokers use to gain manager interest. What is interesting about the story, it that is an abridgement of the research content itself which straddles both peripheral and central routes to persuasion. To be successful with the story, brokers have to be prepared with all the information to present it a clear and concise manner to gain manager interest. This is found in the confidence literature where Wesson and Pulford (2009) found that confident expressions that are succinct increase persuasive effect (Wesson and Pulford, 2009); that confident statements are seen as more reliable (Thomas and McFadyen, 1995); and that concise statements about firm value can have a persuasive effect to end investors (Asquith et al., 2005; Kadous et al., 2005). The data in this study therefore also provides insight into the usefulness of stories in the investment industry and appears to mirror findings in the accounting literature where concise statements can have a persuasive affect (Asquith et al., 2005; Kadous et al., 2005); as well as in the narrative literature where sales people can positively influence buyer decisions through the use of stories over time (Hofman-Kohlmeyer, 2017). Interestingly, the narrative research also shows that stories help build relationships (Gilliam and Flaherty, 2015). Confidently delivering a story, therefore, positively impacts persuasive attempts and relationships between brokers and managers.

Source credibility is also multifaceted like the other peripheral routes in this study but leans heavily on the use of data points and interactions with managers. This includes a history of success, analyst position and their research. It is important to note too that as a persuasive tool, credibility is not separated from confidence, rapport, or social proof in how brokers utilize it to influence managers. Touting past success as a rapport building activity, for example, is a credibility reference. Indeed, it is the main data-point brokers can reference when looking to gain interest prior to placing research. In accordance with Fogg and Tseng (1999), if brokers use this history of results with new manager prospects, it acts as perceived credibility, but with existing manager relationships, it acts as experienced credibility. Similarly, pre-MiFID II, brokers could gain manager interest by demonstrating they had many analysts following a company (Rao, Greve and Davis, 2001) which is both social proof and source credibility. In terms of analyst research and position, these are interconnected. In the case of this study, research credibility is bolstered by the credibility of the analyst who is seen by the investment industry as the star football player of their team. Brokers will therefore leverage their analysts' revere as a tactic to place research. The last point to mention about credibility is how it is earned in the investment industry when something goes wrong. As found in related literature focused on medical practices, greater credibility was found at business locations with increased levels of information accuracy and communication openness (O'Reilly and Roberst, 1976). In this study, brokers and analysts who have a timely battery of communications across various channels with managers, such as when a company issues a profit warning or downgrade announcement to stop panic selling, provides an additional data point to reference back to. This earned credibility, however, is predicated on their timely communication leading to a favourable longer term investment outcome. In this sense it could be termed conditional earned credibility.

Rapport in this study is consistent with the extant literature as a tool for building initial positive chemistry for future communications, and for building relationships (Grahe and Bernieri, 1999; Acosta and Ward, 2011; Nelson, Grahe and Ramseyer, 2016; Fiksdal, 1988; LaFrance, 1990; See also Tickle-Degnen and Rosenthal, 1990; Cappella, 1990). Pre-MiFID II, this extended beyond making calls and emails through social interaction. In addition, brokers consider it as much a personality trait to be engaging as it is as a tactic to open the door (Palmatier, Scheer, Houston, Evans and Gopalakrishna, 2007). Not only this, but the data in this study furthers the findings of previous research whereby verbal rapport, such as on a phone call, contributes to successful negotiation, which for this study includes securing a meeting or placing research with a manager (Bronstein et al., 2012).

Pre-MiFID II social proof was obtained through many analysts covering a firm which added to any information managers already had, as well as from the herd behaviour on the side of other managers (Doukas, Kim and Pantzalis, 2008; Rao, Greve and Davis, 2001). Consistent with Hoffmann and Broekhuizen (2009) who found social proof positively influences investment decisions (Hoffmann and Broekhuizen, 2009), this study found that social proof gained through self-representation of their firms' prestige, exclusivity, a reputation for client success, and a history of results acted to gain manager interest for meetings. While not present in the investment literature, this kind of self-referencing is akin to the use of businesses publicizing customer reviews to influence the purchase of a product (Amblee and Bui, 2011).

Based on this study, every day tactics through peripheral routes act as a precursor to the central route of research. Research provides the detailed financial information managers need to make informed decisions as found with earlier research into soft-dollar usage in the investment industry (Livne and Trueman, 2002; Guo and Mota, 2019). This furthers the persuasion literature whereby providing greater information to interested message recipients impacts their decision (Van Swol and Sniezek, 2005, Pulford, Coleman, Buabang, and Krockow 2018), and that added information increases the financial literacy to make better investment decisions (Kruglanski and Van Lang, 2012) as predicted by dual process models of persuasion (Kahneman and Tversky, 1979; Kahneman 2003; Evans and Stanovich, 2013; Evans, 2008).

Further to the soft-dollar and MiFID II literature, this study finds that research acts to influence manager investment decisions and as a theme it is the most referenced tactic. As such, this study confirms the findings of previous research that describe the need for research to facilitate investment decisions (Livne and Trueman, 2002) and that managers rely on this information to meet their investor client's needs (Taha and Petrocelli, 2014). Research itself acts as a persuader in three key ways. These are one: the content itself which is legally verified and can be relied upon to be factual and accurate detailed financial information. Two: the individual analyst, whereby they act like star football players on a team and are the reason to see the match. Interestingly, this prevents a separation of analyst from their research, something MiFID II unknowingly attempts through compliance rules requiring umbrella agreements before analysts and managers can converse. And three: research plays a part in the creation of the story which is used during initial broker-manager communications. In this sense, research comes full circle and straddles both peripheral and central routes to persuasion.

5.3 Interrupting the status quo and MiFID II fears

Research question two identifies what MiFID II has interrupted in the investment industry and includes an examination of MiFID II fears as experienced by participants. With little research available on the non-transactional or compliance side of MiFID II, findings from research question two are unique in providing a voice to the sell-side, as are the findings from research question three. As part of research question two, the themes of research and revenue, communication and relationships emerged.

Barring the addition of compliance measures, MiFID II has had little impact on industry structure in terms of roles of broker and manager roles. Brokers still sell shares; managers still buy them, and analysts still write research. This research facilitates strategic investment decisions consummate with the existing literature (Guo and Mota, 2019; Livne and Trueman, 2002). Similarly, the flow of information remains the same from broker and analyst to manager, and manager to investor. Under the new rules, however, managers have greater reliance on the information flow than pre-MiFID II. Managers cannot engage in conversation with an analyst, for example, unless an umbrella agreement is in place which denotes the type and focus of allowable communication between parties.

With regard to common channels of communication, calls, emails, meetings, and roadshows still happen, as does the use of the RNS for news, the use of the story to gain initial manager interest, and use of sell-side research to influence manager investment decisions. What MiFID II has impacted, however, is the way calls are made, the knowledge of investors in roadshow meetings, the way the story is generated, and the way research is delivered. The compliance rules under MiFID II have also impacted the relationship closeness felt between brokers, analysts, and managers from something friendly to something more formal. The anticipation of these changes brought with them inherent fears that are legitimized through the experiences of participants in this study.

The most notable change to norms is the change in research delivery. MiFID II aimed to stop the practice of soft-dollars and the data in this study confirms that success. Brokers now have the added task of selling research which adds validation to initial MiFID II research being focused on how to monetise research and the rules of compliance (Meager, 2018; Sokolova and Bahgat, 2018; Busch, 2017). As part of this success, this study also finds that less research is being produced due to fewer analysts following fewer companies and writing less research overall. The reduction in research production concurs with more recent research about research unbundling post-MiFID II (Fang et al., 2019; Guo and Mota, 2019; Liu and Yezegel, 2019; Lang, Pinto, and Sul, 2019). Interestingly, this was foreseen by industry actors who feared a drop in research production due to the increased costs of production compared to large banks who could shift expenses around (Guo and Mota, 2019; Lang, Pinto, and Sul, 2019; CFA, 2017).

The reduction in research production has increased analyst position as well as research quality as outlined by Guo and Mota (2019) who found that post-MiFID II, analyst forecast accuracy has increased (Guo and Mota, 2019. See also Liu and Yezegel, 2020 for a similar study and finding). In addition, with managers paying for research out of dedicated funds, greater scrutiny is applied to the research on top of there being fewer analysts to source research from. This demand for greater research quality is supported by Fang et al. (2019) in their study about MiFID II impact to analyst research (Fang et al., 2019). This study finds that the demand for higher quality research is compounded by the loss of relationship closeness between brokers and managers. Brokers can no longer engage socially so managers rely more on the research rather than how well they know the broker.

Research being a hard money cost has also decreased market access and market knowledge contrary to MiFID II aims. MiFID II aimed to provide greater competition and opportunity for smaller brokerages and independent research providers, thus increasing market access and market knowledge from many providers writing research (Eur-Lex.Eruopa.eu, 2016a). This study finds the opposite to be true with managers choosing to consolidate research providers and be more selective on who they obtain research from. For existing research providers, the loss of revenue from research provided under soft-dollars is exacerbated by managers choosing fewer research providers.

One unexpected finding from the change in research delivery is that it didn't impact all brokers equally. While the majority of brokers relied on soft-dollars as a major revenue stream, some brokers have always used a pay-for-research model. For these brokers, MiFID II is a maintenance of the status quo as opposed to an impact to it. In fact, brokers who did use a pay-for-research model prior to MiFID II were provided with an opportunity to leverage it with manager communications. It stands as an example of how brokers adapted their use of peripheral routes to persuade managers.

Fears surrounding MiFID II as experienced by participants in this study are best housed under the themes they generated. The theme of research and revenue is intertwined as it relates to the loss of revenue from soft-dollar commissions. The theme of communication and relationships relates to the burden of MiFID II to communication and social relationships under the new compliance rules. What makes the fears poignant, however, is there existence despite several years to prepare for the changes. MiFID II was announced in 2014 with an original inauguration date of 2017. This was pushed back a year to 2018 to ensure a smooth transition (CFA, 2017; CFA, 2019; Fantato, 2015). In addition, industry spokespeople advised that prepared firms need not fear the change (Kyriakou, 2017). This is compounded by industry predictions such as reduced research coverage. In a study conducted by the CFA institute (2017) who surveyed over 300 firms from 28 European countries, they found that 78% of buy-side professionals expected to source less research as a result of MiFID II, with 21% not knowing what they will do to obtain research (CFA, 2017).

Regardless of the advanced time to prepare or the predictions made, however, sell-side fears persisted. Based on the experience of participants in this study, broker and analyst fears were well founded. Indeed, participants feared loss of revenue from stopping soft-dollars and feared a drop in research production as a result. They experienced the same because it was unknown how to monetize a commodity that had been previously given away for free. This is shown in the early MiFID II literature being focused on how to monetize research (Meager, 2018; Sokolova and Bahgat, 2018; Busch, 2017). Additionally, with research requiring upfront payments, brokerage houses could not justify the expense of large analyst teams following many companies and so less research was produced. This is on top of a slower investment process from greater legal verification and reporting requirements which seems to support the use of soft-dollars not stop them. As explained earlier, research shows that one reason soft-dollars gained popularity to increase transaction speed and avoid lengthy exposure to sensitive information that might impact the trade (Arjaliès et al., 2017; Carrie, 2008).

Similarly, participants feared the impact of compliance measures to their daily communications and manager relationships. With calls being recorded, and publicised, for example, one fear was the impact to share price which was another support for soft-dollar use (Arjaliès et al., 2017). In addition, rapport building activities from social interactions were curtailed and calls were prefaced with compliance scripts instead of rapport building conversation. Indeed, manager fear of falling out of compliance led to foregoing longstanding relationships without a compliance preamble to calls as well as avoiding calls altogether in case they were payable. For brokers and analysts, then, MiFID II has facilitated a transformation of relationships from something socially driven to something more formal.

5.4 Persuasion in the post-MiFID II landscape

As outlined in response to research question two, research is the most notable and obvious method of persuasion impacted by MiFID II. Common methods of communication have not changed in terms of their existence but how they are used has evolved which includes the use of compliance marketing to gain manager interest. Brokers now sell research as a newly added task to offset revenue lost from soft-dollars. As part of research question three, the themes of time, compliance, and costs emerged.

The impact to research is entirely due to soft-dollars being a deeply entrenched social norm in the investment industry. They served as the prevailing delivery vehicle for research to influence manager investment decisions. This study finds that MiFID II has impacted research by reducing research production but also increasing its value as a commodity. This is consummate with the findings of new post-MiFID II literature concerned with the effects of research unbundling, underscoring its usefulness in the investment decision process (Fang et al., 2019; Liu and Yezegel, 2019; Lang, Pinto, and Sul, 2019). Managers do still need analyst research to make informed decisions regardless of MiFID II because it helps in the decision process (Guo and Mota, 2019; Livne and Trueman, 2002). Impact to research as a persuader, then, has not changed but the delivery method has. Interestingly, this study unexpectedly found that some brokers have always employed a pay-for-research model rather than soft-dollars. For these brokers, MiFID II didn't impact research delivery but provided an opportunity to add to their credibility by leveraging their existing business model as a differentiator against brokers scrambling in the new landscape.

In looking at common communications, MiFID II introduces strict rules to remain on the right side of compliance which are monitored and enforced contrary to MiFID I (Norris, 2009). The enforcement of compliance rules is the reason for so many fears about falling out of compliance on both the buy and sell side. The main disruption to communications such as calls, emails, and meetings, however, is the way they need to be prefaced, recorded, and reported (Lannoo, 2017; Busch, 2017; FCA, 2014). Calls, for example, are now on recorded lines which discourages non-transactional aspects of a conversation, impacting verbal rapport and in turn, relationship closeness between brokers and managers. One interesting observation about this finding is how it relates back to gaining participants for this study. Some brokers fell out of this study, for example, when they realised it would be recorded. Under MiFID II, all calls are recorded which is puzzling as a reason to not participate. MiFID II, however, is a sensitive subject and this study saw two additional participants drop out as a result. One dropped out once they knew the interview would include questions about MiFID II, the other needed permission from their compliance officer who effectively ended their involvement. The disruption to roadshows is minor. The main change for this meeting type is end investor knowledge of how much was spent obtaining the research being discussed. This transparency measure, however, may adjust the meeting conversation as the hard money expense invites greater message scrutiny. Such increased scrutiny is suggestive of it being a contributor to the increase in research quality as found in this study and by Lang, Pinto, and Sul (2019) in their review of MiFID II impact to research (Lang, Pinto, and Sul, 2019).

The impact to the story is rooted in the need for greater legal verification as part of its creation prior to being used by brokers. This increases the cost of producing the story and slows down the investment process. This is in addition to participants stating it can now take months to warm up a manager and that managers are conducting their own verification of data provided by brokers before making a decision post-MiFID II. It also takes considerable time to draw up umbrella agreements to denote what kinds of communication the brokers, analyst, and manager can participate in and for what opportunity. Interestingly, Carrie (2008) argues that one of the reasons electronic platforms failed in the past and why managers were ok paying higher fees to brokers under soft-dollars was because brokers could act faster than early electronic platforms (Carrie, 2008). Slowing the investment process down seems contrary to the desires of both managers and their investor clients. On the plus side, however, greater legal verification adds to the credibility of the story and generates greater broker confidence who can rely on the story details they present to managers. Similarly, managers know that what is said to them is accurate and can be trusted. In this sense, the use of the story has also increased in its ability to persuade.

The biggest impact to the use of peripheral routes as outlined in this study is the use of what this study terms compliance marketing. The notion of using compliance as a pro-marketing or persuasive tactic is not easily found in available compliance literature. Most studies, for example, centre around the use of compliance in marketing messaging as legal protection rather than as a persuasive tactic. Alcohol and tobacco marketing (Molly et al., 2008), breast milk substitute compliance measures (Hoepner et al., 2014), and genetically modified food products (D'Souza et al., 2008) are all good examples of where labelling and compliance adherence is seen as a safeguard. The study by D'Souza et al. (2008), however, did also find that the increased costs for appropriate genetically modified food product labelling would be more than offset by an increase in sales from greater consumer confidence in their products (D'Souza et al., 2008). The data from this study suggests the same outcome, particularly with manager expectations of compliance adherence and the impact to broker relationships if it is missed. Looking at this in the context of this study, the investment industry now operates under a surveillance culture where communications are recorded and publicised through governing bodies as part of the compliance measures for increased transparency (FCA, 2014). In addition, a broker can no longer engage in social interactions with managers to quietly discuss an opportunity. Under MiFID II, any discussion has to be planned, publicised ahead of time, and recorded which can negatively impact share price if the manager declines to meet. In the same vein, umbrella agreements have to exist before a manager can engage in a conversation with an analyst about a particular opportunity. This means the social proof as attained pre-MiFID II such as many analysts following a company is not possible because fewer analysts are following fewer companies and less research is being produced. New normative behaviours from manager compliance expectations, however, allow brokers to engage in compliance marketing. While compliance measures are time consuming, difficult, and seen as negative by participants, this newly found tactic of compliance marketing permits brokers to adapt their use of confidence, source credibility, and rapport by showcasing their level of compliance through common modes of communication. This is seen in the sales literature whereby salespeople who adapt to use various tactics to influence buyers are more persuasive (McFarland, Challagalla, Shervani, 2006). Brokers can successfully build rapport with managers, therefore, by integrating a well-rehearsed compliance script as part of the overall narrative or story. This is supported well in the narrative literature which shows stories are persuasive (McGregor and Holmes, 1999; Denning, 2006; Denning, 2004; Spear and Roper, 2013; Pulizzi, 2012; Klein, Connell, and Meyer, 2007; Gilliam and Flaherty, 2015; Yang, 2013).

The same is true of source credibility in relation to compliance marketing. Brokers who have built a reputation for being MiFID II compliant and making it easy for managers to deal with them as a result have a data reference point similar to a history of results that can be utilized to gain enough interest to schedule a meeting. The last peripheral route is confidence. The desire for brokers to have self-confidence has not changed post-MiFID II but how brokers use confidence has evolved in the new landscape. Brokers now leverage the position of their analysts more so as a scarcer resource, and their analyst research as more credible from the added legal verification obtained during its creation. The same is true of the story because research is what underpins its creation. Coupled with compliance preparedness, brokers feel confident in what they can and cannot say to a manager before picking up the phone.

For new practices, MiFID II stopped the practice of soft-dollars which forced brokers to engage in selling their firms research rather than providing it for free. This was not an issue for brokers who always maintained a pay-for-research model who actually benefitted from a level playing field. For the rest of the brokers, this new task was met with some resistance as it adds to their daily tasks and away from their core role of selling shares. Brokers felt that this task, along with new reporting requirements, was arduous and harder now than pre-MiFID II. In addition, the task of selling research has incurred considerable cost. As expressed by participants, the sell-side has incurred costs for added legal verification and sign off on research produced, overhead cost to fund their analysts outside of soft-dollars, costs for compliance officers and lawyers as in-house personnel, and training costs for employees to be up to speed on current rules before communicating with managers. Other new practices were less expected and without an extensive body of post-MiFID II persuasion research to draw upon, seem to follow the same adaptive selling approach found by McFarland, Challagalla, and Shervani (2006) who found salespeople succeed through adapting tactics to influence buyers (McFarland, Challagalla, Shervani, 2006). This study finds that while some brokers never bundled services under soft-dollars, the norm was to do so. As a result, brokers have adapted their practices in response to MiFID II and are turning to three new practices. These are one: leveraging existing relationships. Brokers and analysts who used the time between MiFID II announcement and inauguration as a runway to prepare existing customers about the pending regulation were successful in securing research payments without issue. As cited by the relationship marketing literature, leveraging existing relationships is a successful sales tactic for repeat purchase behaviour (Kanate, 2010). The interesting finding here, however, is that this will diminish over time when there are no pre-MiFID II relationships to reference back to. Two, brokerage houses are offering free research trials to entice new manager clients. Again, the literature is suggestive that offering trials increases the likelihood of obtaining future paying customers (Bawa and Shoemaker, 2004). It would be interesting to find out, however, whether a manager can also make a successful investment decision during a trial period. Lastly, and most unexpectedly, brokers have started to offer private capital raises to avoid MiFID II regulation requirements altogether. In one view, this activity alone could be to avoid MiFID II costs because the cost of compliance is dramatically higher now than pre-MiFID II. In another view, placing research through private capital is another unintended consequence of MiFID II for brokers seeking to offset lost revenue from soft-dollar commissions. Further research, however, would be needed to know how research is created and consumed in private capital, and to know how it is used to influence investment decisions.

5.5 Contributions to Literature and Knowledge

The major contributions to literature and knowledge in this study are housed in both the persuasion and MiFID II literature. This study contributes to the persuasion literature in showcasing the use and application of dual process models in specialist industries. This study also contributes the growing body of investment literature around MiFID II by providing insight into, and a voice for, the underrepresented sell-side on how MiFID II has impacted the investment industry.

In regard to the persuasion literature, this study has found that in the investment industry, both peripheral and central routes to persuasion interact and support each other toward achieving persuasion, and that long lasting change (an investment decision) cannot be secured through peripheral routes alone. In addition, brokers' use of peripheral routes are seldom individual but are combinations of routes that support each other. This kind of interplay between peripheral and central routes is interesting because MiFID II discourages social relationships which include peripheral routes like rapport. Participants describing a loss in relationship closeness to something more formal and transactional is therefore an outcome of MiFID II.

In regard to the MiFID II literature, MiFID II is still relatively new with limited research from the perspective of the sell-side. Though not part of this study, and despite negative sentiment from participants, this study finds that MiFID II has succeeded in separating research from soft-dollars and has facilitated new normative practices from intended and unintended consequences. The impact and experiences of participants in this study may serve to alter how that success is perceived, however, if other industries look to MiFID II as a template to inaugurate their own industry-wide change.

5.6 Contributions to theory

This study contributes to persuasion theory, relationship marketing theory, and adds a new context in the use of storytelling in the investment industry from the position of the sell-side to influence decision-making.

Regarding persuasion theory, this study finds that in the investment industry, the use of peripheral and central routes must co-exist to have lasting persuasive affect. In addition, peripheral routes to persuasion seldom act alone, but in tandem with other peripheral routes to further increase persuasive affect. In the case of this study, peripheral routes including rapport and credibility combine to build relationship trust which helps in the placement of analyst research. Similarly, both analyst credibility and their research cannot be separated but must work in tandem to be persuasive. In addition, research underwrites the story brokers use at the outset of their communications with managers to gain interest, something considered a peripheral route. Without the story, though, the research which is the central route won't get placed because the story is what managers hear first. Brokers may therefore benefit from ensuring the story they communicate to managers includes reference to their star football player analysts to gain manager interest.

Rooted in psychology for gaining market success by building lasting relationships with customers (Berry, 1995), this study contributes to relationship marketing theory whereby brokers seek relationships with managers to increase decision influence. As with other research that show trust is important in building relationships in financial services (Sekhon et al., 2014), this study shows peripheral routes combine to build trust which is seen as a building block of the investment industry. Similarly, this study compliments the finding that purchase and repeat purchase decisions (such as managers buying shares regularly from brokers they have relationships with) are impacted by relationships (Kanate, 2010). While MiFID II frustrates the ease through which brokers can build relationships with managers, it is evident they will benefit from using rapport and credibility to build and maintain relationships with managers for market success.

Lastly, this study adds the investment industry as a new context in the use of storytelling or narratives to influence consumer purchase decisions (Gilliam and Flaherty, 2015; Hofman-Kohlmeyer, 2017). This is especially useful to brokers due to the small window they have when speaking to managers on an initial phone call. Indeed, brokers benefit most post-MiFID II by using legally verified stories that are delivered in a concise and confident manner following compliance scripts to gain initial manager interest. Additionally, brokers also benefit from understanding that stories must be relevant and one facet of the investment decision cycle. Research acts as the additional information needed for a story to influence buyers over the long term (Herskovitz and Crystal, 2010).

5.7 Limitations and Reflections

One of the ways data collection could have been improved in terms of providing greater data analysis opportunities is through the use of video recording for participant interviews. While the choice to conduct audio calls was both strategic and successful, it is impossible to conduct any visual analysis such as recording body language as a contribution to the data. As a result, this study could not include visual references to positive or negative sentiment in participant interview responses.

Another challenge of this study was access to participants. The original aim for the participant pool was to only include brokers which proved incredibly difficult to do. In a very real way MiFID II regulation itself prevented greater access to participants. This included the sensitive nature of the topic where participants withdrew when learning about the study content, and the prevention of participation due to compliance officers. In addition, the Covid-19 pandemic furthered the difficulty in gaining field access. By opening up to other participant types such as analysts, a sufficient participant pool for saturation was reached. This became apparent when responses to interview questions provided no new information between participants. In hindsight, including analysts as participants had a positive impact on understanding the role of brokers, analysts, the role of sell-side research, and the way MiFID II has challenged and ushered change in the investment industry.

Lastly, this study strategically focuses on research as a whole rather than specifics of the research note itself. As mentioned in the data analysis, one tactic analysts employ is a conservative but not too conservative prediction, with a goal to exceed that prediction just enough as financial results are published. This tactic is not explored in this study outside of simply mentioning it because it would require digging deeper into the specifics of how that conservative prediction is made. Mentioned later in this chapter, however, future research could include picking a specific investment vertical and analysing the content of the research in that vertical rather than the use of research as a persuasive method overall.

Reflecting on my journey as a researcher, there are several things that may help others who are interested in similar research or who are seeking access to a similar participant pool. Speaking about my research journey, much of my self-reflection is rooted in conducting qualitative research. For my research, choosing a qualitative research methodology helped me gain insight into the intricacies of an industry in its natural environment that would have been diluted in its richness had it been boiled down to a lab experiment using quantitative methods. With qualitative research, however, it is important to remember that it is iterative. Thematic analysis requires more than familiarity with the data it needs intimacy. The iteration one conducts in obsessing over the data helps to move past surface analysis into finding meaning and see themes emerge and develop. Any researcher considering a thematic analysis from qualitative research should take the time necessary to comb through the data several times while thinking about the research questions before writing the data analysis chapter. It was a stark realisation during data analysis just how labour intensive it is. While data analysis involves many steps from collecting to analysing it, it starts way before data analysis, and it takes a very long time. Based on my own journey, it started even before data collection with trying to gain access to participants. For anyone looking at the institutional investment industry, especially the sell side, gaining access is incredibly hard. Brokers and analysts are very selfish (and rightfully so) about their time management with it being focused on their craft. This leaves little room to speak about PhD research. Countless hours of work went into finding, compiling, and building a prospect database followed equally long hours of calls, follow up calls, emails, and reminder emails prior to conducting interviews. Taking several approaches to gain interest worked well for me in the way A/B testing helps optimize email campaigns. Thankfully, participants were gained slowly one by one. Any advice I could offer about how labour intensive qualitative research is summarised in the following ways: As a general rule of thumb, I advise any researcher to start early. There is no need to wait for everything to be ready in the dissertation for data collection before gaining field access. Try to obtain ethics approval as soon as it is feasible and start soliciting for participants alongside other aspects of the study. The next thing to do is develop a thick skin. Brokers are in the business to sell shares and their time is valuable. I have described more than one experience where the response from prospects were really quite rude. Similarly, getting excited that participants who were initially interested but then disappeared was disheartening. This was exacerbated by the way MiFID II prevented access to otherwise interested participants due to the nature of the topic. The caveat of participant rejections or attrition for my research, however, meant something. It helped with the conclusion that brokers are busy, that MiFID II is a sensitive subject, and that there is an increased role of internal compliance on broker communications. One participant, for example, wanted to participate but told me they needed compliance officer approval. That participant disappeared and never responded to further calls or emails. For me, perseverance and determination was key in gaining participants.

Another aspect of my own struggle for field access came in the form of the COVID-19 pandemic. COVID-19 is a unique and unprecedented phenomena with little information available to the investment industry on how they might predict its impact on financial markets. Participants who I was able to talk with gave some limited insight into how COVID-19 impacted the industry but when it was new, a good amount of scrambling occurred to build plans for their manager clients. This kind of scrambling and planning takes time and focus which furthered my difficulty in gaining participants.

Lastly, thinking about my own research again, data collection methods need to accommodate participants and as a researcher it is important to be flexible. When using a qualitative approach, it is nice to think that in-person interviews with a camera in the room is an easy thing to set up. For the investment industry, brokers were already busy, and the subject matter was sensitive. Participants were also experiencing a pandemic and I was in another country making it impossible to arrange. As a secondary idea, video recording software was investigated but it didn't work for several reasons. In testing the chosen platform, it proved unreliable which is not good for gathering recorded interview data. Brokers also did not have the time to download an app or software, create a username, and then log on while I called. They needed a fast and easy way to participate, which often happened after business hours, during down time, or while walking to the train or between meetings. One participant, for example, cancelled several times because they were simply too busy to make the call. Thankfully, they filled out responses to the interview questionnaire via email with a comment that it was too long. My advice to a fellow researcher would be to choose the tools, times, and data collection methods that make it easy for them to participate while still keeping with the chosen methodological approach.

In closing, my overall advice to a fellow researcher is not really my advice, but the advice of my PhD supervisors. That is, try and do something every day. Time management is important in conducting a PhD and that advice resonated with me. On days when it seemed impossible to get something done, I just did a little bit. Doing so helped me continue momentum as well keep me close to my research. I am grateful for that advice and gladly pass it on to future researchers going through this same journey.

5.8 Future research and Implications

The findings from this study as well as the timing and focus of this study indicate interesting avenues for future research. Based on my findings first, this study has benefited by having both brokers and analysts as participants to understand the sell-side. In a post-MiFID II landscape, it would be interesting to investigate how managers might describe the way they obtain sufficient knowledge without the ease of soft-dollars to make investment decisions and provide a voice to their frustrations about MiFID II regulation as a comparative review. Indeed, the buy-side literature suggests that managers engage with their own buy-side analyst research in addition to the sell-side when they believe it is too bias, which may seem to devalue sell-side research in the decision process (Cheng, Liu, and Qian, 2006). However, further buy-side research shows that sell-side research recommendations outperform those produced by the buy-side, and that investors rely even more on analyst research in bad times, both of which increase the value of sell-side research in the decision process (Loh and Stulz, 2018).

Another area for future research revolves around the use of relationships and relationship marketing. While some research describes that discourses of friendship may not provide the best customers (Dalsace and Jap, 2017; Gompers, Mukharlyamov and Xuan, 2014), this study shows relationships are heavily sought after. The results in this study confirm the latter and indicate that rapport helps build relationships, and relationship closeness impacts persuasive success. Indeed, research in financial services show that relationship closeness does impact trust (Sekhon et al., 2014; McKnight et al. 1998), and this study shows how peripheral routes combine to build trust between brokers and managers. Future research, then, could investigate two things: one, relationship trust as a determinant of persuadability in the investment industry, and two, whether discourses of friendship in the investment industry has influence on long term clients' investment decisions. In a similar vein, with research proving to be integral to influencing manager investment decisions, future research could investigate whether a history of good research provision acts to bring relationships closer which may have a compounding effect on brokers' ability to influence managers post-MiFID II.

More specifically based on findings from research question three, results showed that brokers have started offering free trials as a tactic to obtain future payments from managers for research and have started private capital raises outside of MiFID II regulations due to the impact of MiFID II on revenue. Currently, it is uncertain what research exists specifically on the type and content of research trials or whether a manager would use trial research to make an informed decision. A future study could investigate the prevalence of sell-side research trials, the volume of research a trial includes, and whether it is sufficient to make a profitable investment decision. With research trials in the investment industry being a grey area (Labbë, 2019), it is possible MiFID II could issue a 'no trials' rule in the future. Similarly, no current research was found outside of this study about institutional brokers moving into private capital outside of MiFID II regulation. Without such regulation, future research could find out how brokers use research in private capital raises and whether the level of detail is commensurate to the expectations on the institutional side.

Other areas for future research include investigating the specific aspects of research as persuasion, the impact of MiFID II on international markets not under the EU regulation, the fears of brokers and analysts losing opportunities due to Brexit, and the impact of COVID-19 on creating meaningful connections outside of face-to-face meetings for decision influence. Taking the first, as stated earlier, research in its entirety is examined in this study. Research shows, however, that specific financial models have a role in communication and storytelling for formal calculation (Svetlova, 2018). Similarly, this study shows that an analysts' tactic may include taking a conservative approach to their recommendations but not by much so as to keep their accuracy (and therefore position as star football players) high. Future research, therefore, could include examining the specifics of research content in a specific investment industry vertical for its impact on persuasion. There is an indication of this in the buy-side accounting literature (Elliot, 2006) but it isn't known as of yet for the sell-side. Taking the second, this could be a study on markets not part of this study or under the rule of MiFID II regulation such as the USA. How long the 'no action' letters from the SEC will last now that MiFID II has succeeded in separating research from soft-dollars, for example, would be interesting to find out (Securities and Exchange Commission, 2017). Indeed, the 2017 letter which expired in 2020 was extended in 2019 until 2023 (Securities and Exchange Commission, 2019).

The impact of Brexit could also be an interesting study in relation to broker fears that emerged from this study around MiFID II. Their fear is about losing revenue and opportunity to non UK economies. A future study could investigate how Brexit has impacted broker access to managers who may look to other economies to invest in rather than in the UK. Similarly, it would be interesting to find out if brokers have sought ways to entice managers to UK opportunities compared to EU member countries.

The results from this study also indicate that Covid-19 has impacted the way brokers, analysts and managers do business. Face to face is the preferred method, and roadshows are an integral part of the investment process which serves as a venue to discuss the research. Covid-19, however, has negatively impacted the ability to be face-to-face and new technologies have risen to fill the gap in human interaction. Data from this study suggests that industry actors are more likely to be apprehensive about investment opportunities if the host broker or company has a poor grasp on meeting technology than those who have good IT standards and reliability. A future study could investigate the role of digital meetings in building relationships with managers. Research in the healthcare and education literature, for example, suggests that remote consulting and learning are a new norm (Rabasse et al., 2021; Zaghloul, Hassan, and Dallal, 2021). How the investment industry might embrace or reject that as part of their investment process based on the onus of personal relationships would be interesting to find out.

Lastly, it would be interesting to investigate compliance marketing as a method of persuasion in financial services outside the investment banking industry. This study has shown that brokers engage in leveraging their level of compliance to influence manager interest. The idea that regulation change can be utilized by marketing is an interesting one. While existing research looks at compliance messaging as a legal safe-guard (Molly et al., 2008; Hoepner et al., 2014; D'Souza et al., 2008), little research seems to exist on pro-actively promoting compliance as a persuasive method or tactic. It would be interesting to know if compliance marketing only applies to already heavily regulated industries like finance where there is an expectation of compliance, or whether other industries such as the healthcare, insurance, or car market could benefit from it should a similar regulatory change occur for them.

5.9 Closing remarks

This study investigates the methods of persuasion used by brokers to influence managers pre- and post-MiFID II regulation change in the investment industry. The results of this study provide significant information into how MiFID II has impacted persuasion methods used by brokers and what new practices have started in response to that impact. A key focus of MiFID II is to increase transparency to end investors which includes methods of enforcement following the failures of previous regulatory attempts evident in the scandals that saw economic crash in 2008. MiFID II achieves this increase in transparency through a series of communication and reporting mandates but most notably through stopping the soft-dollar practice. The soft-dollar practice being the delivery vehicle for sell-side analyst research that managers use to make informed, strategic investment decisions.

The data in this study shows that brokers use a combination of peripheral routes to persuasion, applying confidence, source credibility, rapport, and social proof tactics to influence managers. This is expressed through common channels of communication such as calls and industry norms such as roadshows. These tactics, however, act as a precursor to placing sell-side analyst research which serves as the central route to ultimately influence an investment decision. The combination of calls and meetings with research as persuasion methods contribute to the persuasion literature and furthers the understanding of applying dual process models to specialist industries like the investment industry.

In relation to common channels of communication, calls, emails, meetings, roadshows, the use of the RNS, and the story have not changed pre- or post-MiFID II in that they still happen. MiFID II does, however, force a change the way these channels and methods are used under the new rules. As examples, brokers now use compliance scripts ahead of calls, investors now know how much was paid for the research discussed at roadshows, and the story undergoes a greater level of legal verification before it can be used to gain manager interest. Similarly, the use of research has not changed pre- and post-MiFID II, just the delivery method. Brokers are now tasked with selling research upfront which had some unintended consequences. Post MiFID II, less research is being produced due to the loss of soft-dollar revenue that justified the expense of larger analyst teams. Remaining analyst research, however, is also of higher quality leading to greater broker confidence and source credibility in the eyes of managers. One cause of this may be from increased research scrutiny due to it being paid for upfront from dedicated funds that managers have to justify to their investor clients. Interestingly, the impact of stopping soft-dollars was not felt equally by all brokers. Some brokers maintained a pay-for-research model pre-MiFID II which afforded them an opportunity to promote themselves against their former soft-dollar using competition. This study also finds that brokers have adapted their use of confidence, source credibility, rapport, and social proof through the use of compliance marketing. Brokers can, for example, reference their level of compliance as a persuasive tactic as it feeds into the new normative behaviours around manager compliance expectations. In addition, managers expect to hear compliance scripts at the outset of a call and will discard even longstanding broker relationships if it is missing from the beginning of a call for fear of falling out of compliance. Compliance measures were unanimously described as a negative impact to the investment industry, with them slowing down the investment process, driving down broker revenue, and resulting in a loss of relationship closeness. The data in this study suggests that broker-manager relationships were more socially driven pre-MiFID II compared to more formal ones post-MiFID II. To offset the lack of social interactions with managers, brokers are leveraging compliance marketing as a way to build rapport.

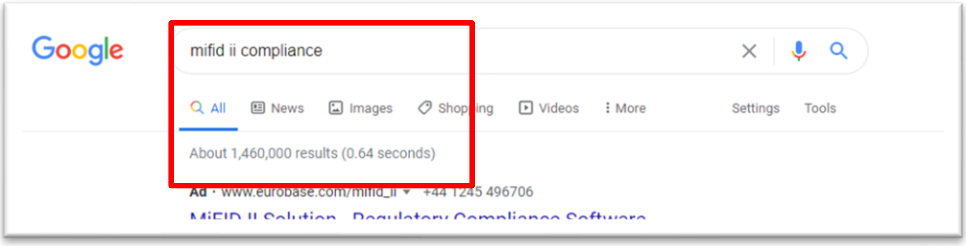
In response to MiFID II, brokers have engaged in selling research to managers as expected but have also begun practices to skirt or avoid the regulation due to significant costs. Post-MiFID II, brokerage and research houses are providing free trials of their research with the hope of obtaining a paying customer at the end of the trial period. In is unknown, however, whether a manager could make an active investment decision during this trial. In addition, brokers are now offering private capital raises as a new service offering. This effectively allows the use of soft-dollars to place research and avoids the compliance measures for reporting, transparency, social relationships, and higher costs for research production. It is also unknown, however, how research is created and consumed in the private sector and whether it acts to influence in the same way. Further study would be required on both of these accounts.

As a closing remark, this study does more than add a persuasion lens to the investment industry, it shows how brokers use persuasion to influence managers pre- and post-MiFID II regulation change, how they have adapted under the new rules, and gives a voice the underrepresented sell-side. MiFID II regulation has indeed brought about industry change that carried with it intended and unintended consequences. It is hoped that other industries looking to MiFID II as a template for their own mandated industry change will take into account its relative success and failures as experienced by participants in this study.

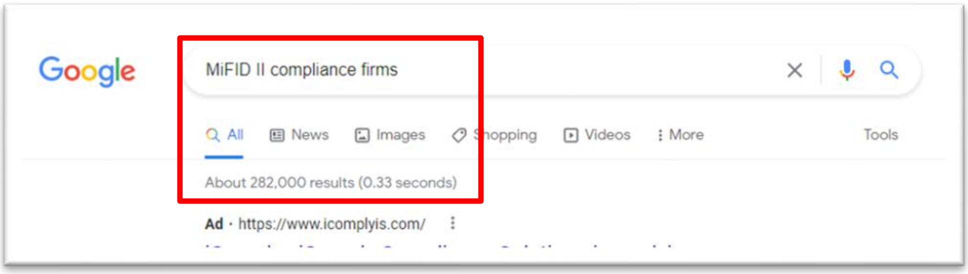
Appendices

Appendix A

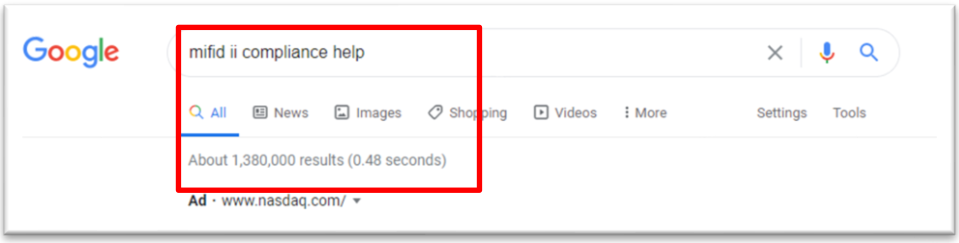
MiFID II compliance:



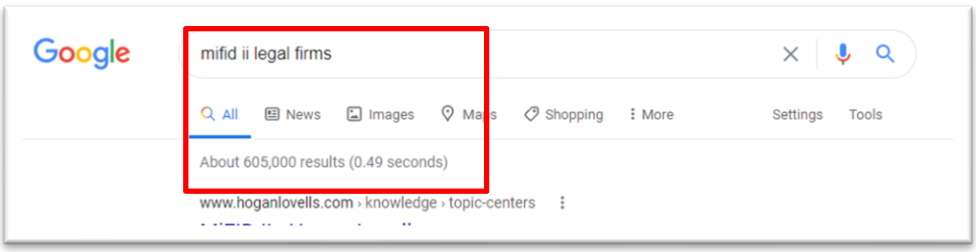
MiFID II compliance firms:



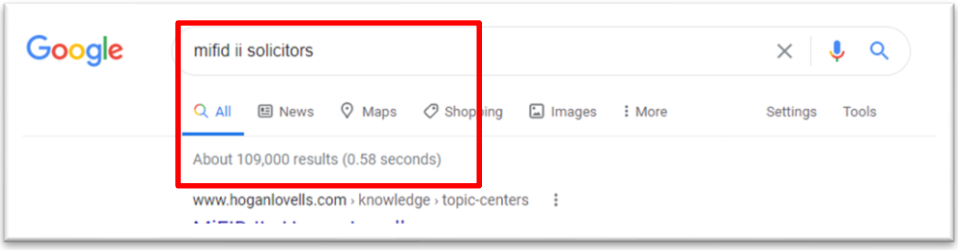
MiFID II compliance help:



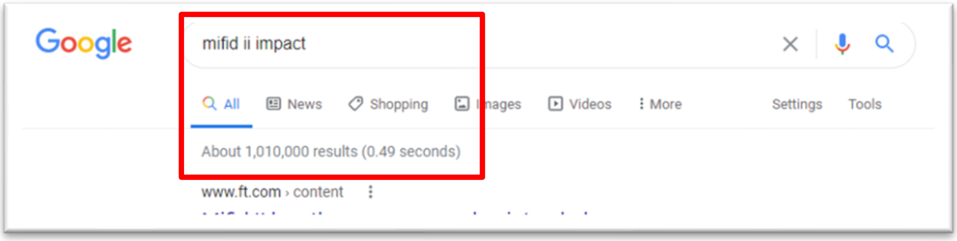
MiFID II legal firms:



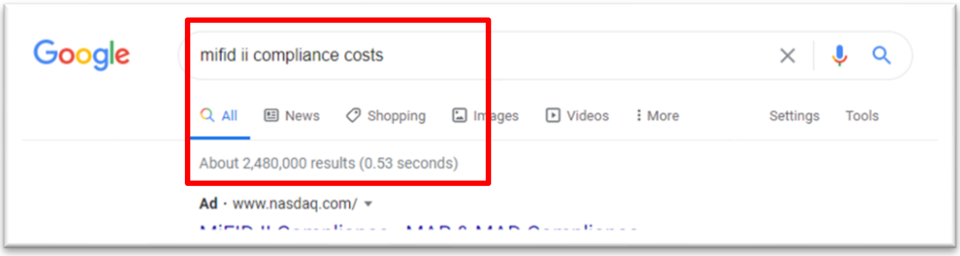
MiFID II solicitors:



MiFID II impact:



MiFID II compliance costs:



Appendix B

Semi Structured Interview Questionnaire

1. Verbal Consent:
    a. Would you like to participate in this interview?
        i. Consent obtained / not obtained
2. Demographic information:
    a. Age/Gender
    b. Title
    c. Years in industry / with current firm / what stood out most about that firm upon hire
    d. Firm focus
3. Can you briefly tell me about your typical day?
    a. Probes:
        i. What do you like most about that?/What do you dislike the most about a typical day?
        ii. Are there times or instances that the day to day tasks are replaced by more exciting meetings?
        iii. How would you describe a typical day as a broker?
4. What do you think makes a good salesman (broker / analyst) in this industry?
    a. Probes:
        i. What are some of the things typical to help in the sales process?
        ii. How would you normally get a manager interested in your services?
        iii. How would you talk to clients to get them interested?
        iv. Can you describe the process of getting that done?
            1. What about after initial interest, how do you take it to the next level to buy?
        v. Are their specific things that you think managers are more responsive to than others? – can you elaborate on those?
        vi. What If a client isn't happy, how do you remedy that typically?
5. How important is your relationship with managers?
    a. Probes:
        i. How would you describe your relationships with new vs old clients?
        ii. Is there anything different you do with new vs old clients to keep interest high?
        iii. How do they differ?
        iv. What do you think managers think of you when they interact with you? Is there a certain image you think they need to see? Can you elaborate?
6. How does (FIRM NAME) keep ahead of market news or changes? (MiFID II)
    a. Probes:
        i. What has been your experience in adapting to market change?
        ii. Is there anything unique you do to help with that?

iii. Does such change adjust how you interact with clients or gain new ones?
iv. What are some of those things, can you explain that more?

Appendix C

The Regulatory News Service or RNS emerged as an unexpected theme during interviews with participants who talked about their daily activities. At first, the RNS presented itself as theme based on consistent and frequent reference to this regulated communication platform across different participants. As interviews progressed, it also became apparent that the RNS superseded some of the structural constraints of the investment industry. Indeed, some participants enjoyed the fact that any day could be different based on the RNS news each morning. Participants explained, for example, that they are at their desks before 7am because that is when UK market news is published. In addition, though the RNS published news that both the sell-side and buy-side could see at the same time, information flow in reaction to the RNS announcements still followed industry structure. That is, companies engage with brokers directly and not with managers. Similarly, brokers and their analysts then engage with managers, who in turn communicate the news and any accompanying research notes with their investor clients. The place the RNS took in the eyes of participants and its importance in the industry was much more than a communication platform as it had the ability to set the communication tone and tactics for any given day.

To illustrate this with a small example, if a company has news to share such as a profit warning, that is to say, they will miss their projected profits by a margin greater than 10%, tough they can contact a broker directly, they must publicise the news using the RNS. They cannot call the manager, nor the investor, to share this news, it has to be communicated through the RNS. The broker and analyst may then engage with the company to formulate a view which brokers then use to communicate with managers. The story brokers use at this juncture may be via phone call or meeting and is underpinned by the reactionary or updated research note provided by the analyst, which in this example could be a long term view to prevent panic selling or a recommendation to sell and lock in the loss. The time and type of communication tactics or story a broker uses with a manager who has seen the profit warning, then, is influenced by the RNS.

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