THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Department of Accounting

The Voice of the Market: Conformity and Deviance among Securities Analysts

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Date: 11 January 2012
Time: 4.00-5.30pm
Venue: OLD.3.21

Abstract

Sociological approaches to the market posit that market actors solve evaluative uncertainty by following the opinions of others. These approaches assume that the "voice of the market" formed by these opinions always provides clear, unambiguous guidance to focal actors. This paper starts from the premise that the voice of the market is not always univocal, and asks how the distribution of opinions on an issue affects the propensity to conform or deviate. We represent the voice of the market as the full topology of opinions focal actors observe, and represent it with two dimensions: loudness (the number of opinions expressed) and accord (the degree of agreement across the opinions expressed). We hypothesize that up to a certain level of loudness, accord increases actors' propensity to conform. But as conformity plants the seeds of deviance we expect that beyond a certain threshold of loudness, accord increases actors´ propensity to deviate. We test our theory with a dataset of all US securities analysts from November 1995–September 2006.