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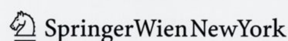
Olivia Bosshart

Journal of Economics

ISSN 0931-8658

J Econon
DOI 10.1007/s00712-018-0602-8



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J Econ
https://doi.org/10.1007/s00712-018-0602-8

BOOK REVIEW

Arjalies, Diane-Laure et al.: Chains of finance: how investment management is shaped

Oxford University Press, Oxford, UK, 2017, 174 pp, Hardcover, 30.00£

Olivia Bosshart[1]

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The book "Chains of Finance: How Investment Management is Shaped" opens with a quote from 2014 stating, that "we may be entering the age of asset management" by Andrew Haldane, the then Bank of England's Director of Financial Stability. And the finance and investment industry is not only of enormous size, but the number of market players is growing with it. Around a $100 trillion, approximately the equivalent in value to a year of total global economic output or 40% of global financial assets, are managed by investment management. This number and its large impact on the economy and society, serves as the background to the book. The authors Diane-Laure Arjaliès, Philip Grant, Iain Hardie, Donald MacKenzie and Ekaterina Svetlova quite rightly claim that in order to understand financial markets it is important to analyze and see through the mechanisms and entanglements throughout the industry. So they set out to have a closer look on how the investment industry, controlling and processing this impressive amount of assets and savings is organized and how it works—on the surface as well as on the inside.

In their book, the five social scientists combine their research findings in order to establish an innovative view on what they call "The Investment Chain"—which is the organizing theme in the eight chapters. They put on record that current research is primarily focused on banking or various types of 'traders'. In contrast, the authors analyze the entire industry, its players and stakeholders and the mechanisms and interactions in the decision making process. While the investment sector is often perceived as a network, Arjaliès, Grant, Hardie, MacKenzie and Svetlova postulate that the asset

✉ Olivia Bosshart
olivia.bosshart@kion.ch
http://www.kion.ch

1 KION, Zurich, Switzerland

Published online: 12 March 2018

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management industry should rather be seen as a chain with various interacting links. These links consist of a multitude of intermediaries and go-betweens involved in the process of investing. The authors investigate many of these links with regard to their specialties and entanglements within the chain. Moreover they take into account that seemingly homogenous groups such as institutional investors act differently depending on their guidelines.

One of the books' central points is to demonstrate, that "savers", institutional or individual, are less and less the ones who make the decisions on how savings and assets are and should be invested. Instead, savers' decisions are predominantly influenced and directed by financial advisers, wealth managers, pension funds or trustees who in return employ investment consultants of their own. The assets, resp. the decision making process continues on through investment management firms who interact internally or externally with analysts, strategist/economists and other specialized companies like e.g. rating agencies. Other "links" or layers that are considered in the "Chains of Finance" are brokers, investment banks, stock exchanges or dark pools but also the emitters like Governments and companies themselves. Within each link people interact, seek advice, weigh their interests and eventually take (investment-) decisions concerning "savers" assets. The length of the chain and the number of parties involved however carry the risk that the savers own original intentions e.g. for responsible and/or sustainable investing, become diluted or are just outright forgotten within the process.

Also due to this ever longer chain of institutional intermediaries, either for regulatory reasons or for specialized knowledge, the authors highlight how important it is to recognize and understand the various interactions and interdependencies and entanglements in the industry. They particularly emphasize the significance of looking behind the mere factual relations and explore the social and cultural ties and strings—between the links—as well as within these links. Following the systematic "Social Studies of Finance" approach they draw the conclusion that the Investment Chain consists of a series of wide-ranging relations that are at the same time enabling and constraining decisions and the flow of funds. As a result of the multifaceted social interactions of and within the various parties and actors the authors question the widespread perception of mere principal-agent-relationship between savers/investors and investment management firms or fund-managers. The principal-agent-relationship in investment management is generally connected to the idea that decisions are based on strictly rational, quantitative and/or scientific factors, rigorously assessed and measured by performance numbers. Instead the authors claim and underline by research, that personal relationships are often more important and more influential than plain costs and performances. Throughout the book it is explained and exemplified how the various links of the investment chain mutually influence each other on an interpersonal and social scale, comparing and imitating each other, following herd instincts and thus creating their respective audiences.

In different chapters the book therefore tackles the soft factor issues resp. the social interaction between people vs. solely economic action. Accordingly, the authors also address possible conflicts of interest and phenomena like "soft dollar agreements", "closet benchmarking", "frontrunning", "windowdressing", "leaning for the tape" and others. Thus the book goes into a debate on negative as well as positive consequences of

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interpersonal relationships. One example, treated in a separate chapter on "Entangled trading" is the discussion of blackpools versus solely human interaction.

Finally, the (writing) team also presents examples for constricting aspects within the chain. A whole chapter is dedicated to a case, showing how a desirable common objective of several chain-links towards improved labor conditions and sustainability cannot be achieved because of restrictions the intermediaries impose on each other as well as personal interests. The case exemplifies the number and variety of constraints along the chain of finance instead of being able to combine forces.

Arjaliès, Grant, Hardie, MacKenzie and Svetlova structure their book into eight chapters that are not necessarily stringent but demonstrate the combined results of the five author's research. They derive their conclusions from more than 450 in-depth interviews with investment management industry employees in Europe and the US for one thing. On the other hand their findings are the outcome of ethnographic and even auto-ethnographic work throughout the investment industry in different European countries. The merging of the five author's findings and their diverse methods might have come at the expense of the common thread. However the mix of research methods and their presentation rather facilitates the readability and biographic sections and original quotes add to the practical relevance. Furthermore every chapter comes with an introduction and a summary, linking it to the shared umbrella term—the"Investment Chain"—as well as referencing the findings shown in other chapters.

While some of the facts discussed in the book are not entirely new, they are often enough not conscious, get neglected in everyday business or are even downright disregarded. So, the authors are perfectly justified in their concluding statement: "If a poorly functioning investment chain contributes to lower growth, inequality, poor workers' rights, and a hotter planet, its functioning should be a matter of urgent academic and political inquiry" of which they hope to see more. In summary the book is highly recommendable for academics, finance professionals within the chain, as well as for savers resp. private individuals.