Careers in Finance

by Andrew Ellul, Marco Pagano and Annalisa Scognamiglio

Rui Silva

London Business School

Capri, September 2016

Introduction

- Question: how do careers of hedge fund managers look like?

- Interesting topic
  - Careers in finance may differ from those in other industries.

- Important topic
  - Finance is a vital industry to allocate resources in the economy.
  - Understanding the careers in the finance industry is critical to understand incentives

Introduction (cont'd)

- Obtain identities of workers who held managerial positions in at least one hedge fund present in the Lipper Hedge Fund Database between 2007-2014
- Hand collect data on the full careers of these managers
- End up with a sample of 1375 managers
- Study the careers of these managers in terms of:
  - Speed
  - Risk

Main Findings

- Hedge fund managers have fast careers
  - On average it takes 11 years to become CEO (contrast with 22 years for industrial firms)
  - 62% of fund managers take a CEO level role during their career
- There are significant differences in the careers of different fund managers
  - Differences in entry level
  - Those that enter in lower positions have faster careers
  - Differences in career paths – some workers are “stayers”, other are “movers”
  - Stayers have faster careers than movers
- Fund liquidation permanently impacts managers’ careers

Comment 1: Career Levels

- Paper hinges on definition of career levels

- I would like more evidence that these are meaningful
  - Information on whether these different levels are aligned with wages
  - Do all firms have all levels? Could it be that small firms only have some levels?
  - Are levels comparable across firms? If not how do we think about fast vs slow career paths?
  - Can we use these levels to compare with other industries?
  - Is a CEO in this sample comparable in any way with a CEO in industrial companies or other financial firms? Do they have similar wages, for example?

Comment 2: Low vs. Middle Entry Levels

- One striking (and surprising) result is that those that start their career at lower positions rise faster.
- In fact it seems that starting at the bottom may lead to better career than starting in the middle.

Table 5. Career path and mobility across employers

	PANEL A					
	Speed to highest job level		Ever CEO		Years to CEO	
	(1)	(2)	(3)	(4)	(5)	(6)
Mobility across firms	-0.049***	-0.077***	0.003	0.031**	1.089***	1.472***
	(0.019)	(0.019)	(0.017)	(0.015)	(0.341)	(0.324)
Male	0.075*	0.127***	0.351***	0.229***	-0.525	-1.159
	(0.039)	(0.043)	(0.037)	(0.036)	(1.037)	(1.017)
Master	0.027	0.030	0.096***	0.070***	0.608	0.777
	(0.028)	(0.028)	(0.026)	(0.025)	(0.499)	(0.487)
Recession	-0.002	0.026	0.034	0.009	1.620**	0.693
	(0.041)	(0.042)	(0.035)	(0.034)	(0.786)	(0.762)
Low (below 3)	0.514***	0.438***	-0.176***	-0.147***	2.643***	2.724***
	(0.027)	(0.026)	(0.030)	(0.029)	(0.612)	(0.596)
Medium (3-4)	0.200***	0.153***	-0.191***	-0.170***	5.180***	5.435***
	(0.021)	(0.025)	(0.038)	(0.038)	(0.700)	(0.720)
Career length FEs	No	Yes	No	Yes	No	Yes
Observations	916	916	1242	1242	787	787

Comment 2: Low vs. Middle Entry Levels (contd)

- First, it would be good to know how can you start in middle jobs? Are these in smaller firms?

- Larger firms may have more hierarchical levels and starting in lower levels is measuring starting in larger (better) firms

- Second, it would be good to test difference in coefficients between low and medium level starters

- Third, you could test promotion speed conditional on level of hierarchy
  - Higher levels may take longer to climb than initial levels
  - This could lead to a mechanical correlation between time between levels and entry level
  - Could control for firm size, worker age and worker experience, etc

Comment 3: Movers vs Stayers

- “employees who switch infrequently across employers have faster and more stable careers, suggesting that longer stretches of time with a few employers allow better learning of workers’ skills than frequent churning”

- I think learning should lead to less changes not necessarily more promotions

Comment 3: Movers vs Stayers

- Alternative/complementary explanation:
  - It could be that learning takes little time
  - Good worker-firm matches are stable, while bad matches are terminated.
  - Thus good matches rise through the ranks. Workers that get promoted don’t leave.
  - Workers with unlucky matches do not rise as much and are likely to separate.
  - It is not a longer match that leads to promotion. It is match quality that is leading to both match length and career progression.

Comment 3: Movers vs Stayers

- Stability is measured throughout the career of workers
- However, you only expect more stability *after* learning occurred. In fact, if learning is important there should be "instability" early on.
- You can test this: contrast the stability of future careers of workers with the same experience but different firm tenure.
- For stability of future career it would also be interesting to see other measures:
  - Right now a worker that gets many promotions could still show up as having an unstable career.
  - So the question is: unstable relative to what?
  - Deviations from the mean or the mode or linear progression.
  - Number of demotions

Comment 4: Career post liquidation

- Worker's careers are affected post bankruptcy
- If you are a worker at a fund that is liquidated future career opportunities suffer

- However, there might be selection considerations: best workers could have jumped ship prior to liquidation of the fund

- Hard to know what drives the effect
  - Could be that being part of the firm leads to a loss of firm specific human capital
  - Could be that market is learning about true ability of workers of the firm

Comment 4: Career post liquidation

- Would be nice to see these results in a regression setting too

- Could also link fund performance to promotions, demotions, job changes, etc

Conclusion

- Interesting and important topic

- Interesting and thought provoking findings

- Would like to see more on:
  - The measure of hierarchy
  - Firm characteristics
  - Additional tests on entry level and movers vs stayers to shed more light on theory
  - Link to fund performance and power of incentives even outside of liquidation

- Overall nice paper. Recommend reading it.

- Looking forward to seeing the next version. Good luck!

Good luck!