Careers in Finance

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Motivation

- Vast literature on careers either does not distinguish between finance and non-finance workers or drops finance workers from the sample.
  - **Labor**: Baker, Gibbs & Holmstrom (1994), Gibbons & Waldman (1999, 2006), Farber (1994), Moscarini & Thomsson (2007), Topel & Ward (1992).
  - **Corporate finance**: Benmelech & Frydman (2015), Schoar & Zuo (2016).
- Finance differs drastically from other sectors:
  - Information, risk and scalability are key.
- Opportunities and risks for workers in this sector are also different:
  - "the Forbes 400 of today also are those who were able to access education while young and apply their skills to the most scalable industries" (Kaplan & Rauh, 2013).
  - Sizeable wage premium, steeper and riskier wage profiles (Philippon & Reshef, 2012).

Research questions

- What makes a career in finance a successful one?
- Characterize career profiles of finance workers along three relevant dimensions: **intercept, slope and variability.**
  1. How do career paths differ depending on initial job level? How do workers' characteristics and market conditions in the early phase of career correlate with initial job level?
  2. Career speed and mobility across employers: Does learning about employees' talent occur faster within the firm than in the marketplace?
  3. Are workers' careers affected by negative performance of their employers?

Related literature

- Market conditions in the early phase of career.
  - Oyer (2008), Schoar & Zuo (2016).
- Career speed and mobility across employers.
  - Baker, Gibbs & Holmstrom (2001), Farber (1994), Jovanovic (1979), Moscarini & Thomsson (2007), Topel & Ward (1992).
- Employers' performance and workers' subsequent careers.
  - Graham, Kim, Li & Qiu (2015), Hochfellner, Montes, Schmalz & Sosyura (2015).

Outline of the presentation

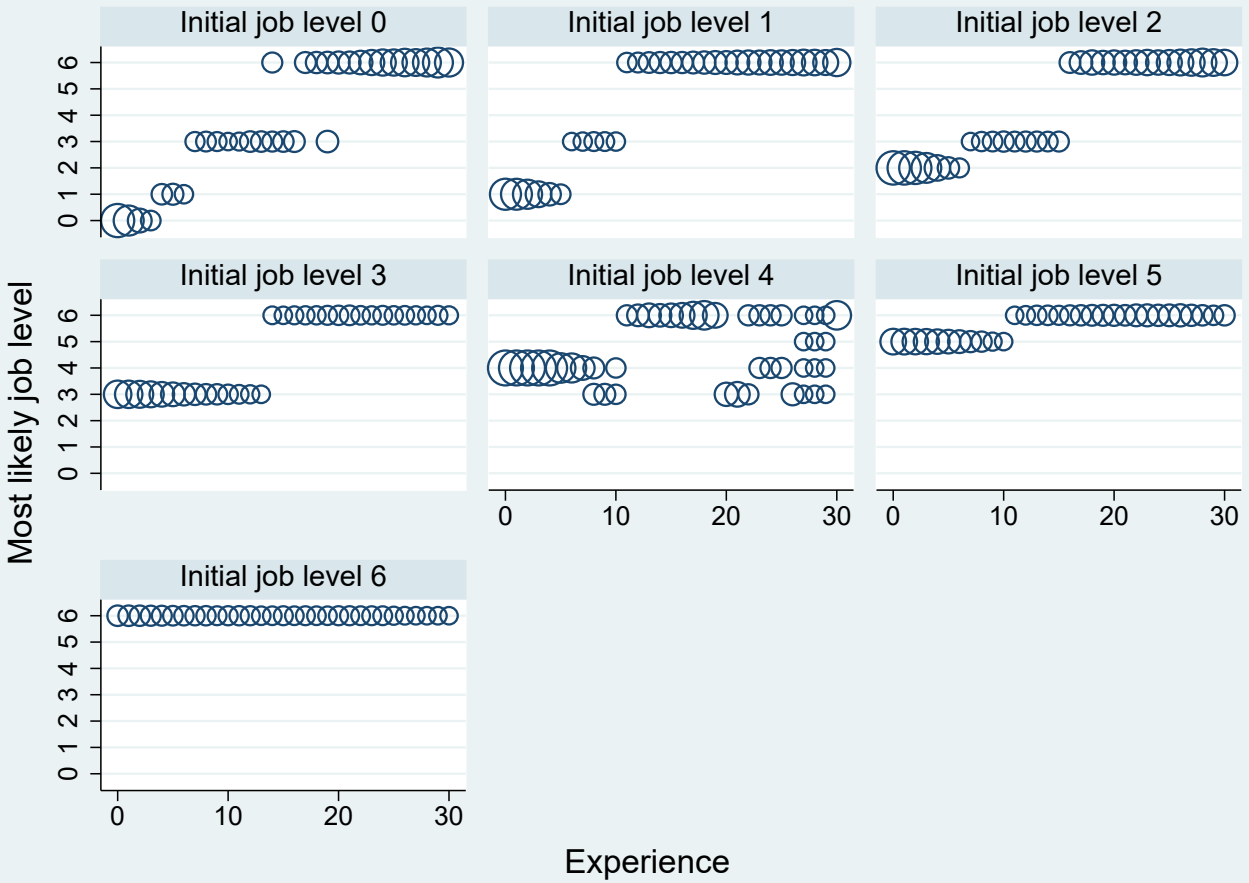
Data

- Sample of workers who in 2007-2014 held managerial positions in at least one hedge fund present in the Lipper Hedge Fund Database (TASS).
  - Step 1: Draw names from TASS database.
  - Step 2: Draw data from individual resumes available on a major professional networking website, Bloomberg, Businessweek and companies' websites.
- Final sample: 1,375 workers.
- Max career span: 1968-2016.
- **Work histories**, year of the first job, as well as the start dates, end dates, employers and job level held throughout the worker's career.
- Gender and education (degrees and respective dates, subject and school for each degree).
- Notice: Not all workers start in the hedge fund industry, not all of them achieve a CEO position. ▸ Workers stats ▸ Careers stats

Job level

- We classify the jobs in eight groups. The code associated with each level is meant to measure the decision power associated with each job:
  - -1 Non-corporate jobs - e.g. academic researcher;
  - 0 Typical entry-level positions - e.g. assistant;
  - 1 Qualified clerical positions - e.g. traders and analyst;
  - 2 Advisory or strategy-design positions - e.g. senior traders and analysts;
  - 3 Low managerial positions, typically involving managing a specific team or fund -e.g. divisional director;
  - 4 Middle managerial positions - e.g. chief compliance officer;
  - 5 High managerial positions, except the top ones - e.g. CFO;
  - 6 Top managerial positions -e.g. CEO and founder.

Most likely career path and initial job level



- Workers that start from low job levels tend to rise to the top faster than those who start from intermediate ones (1 vs 2, 3, 4).
- Very high persistence at the top. ▸ All job levels

Initial job level

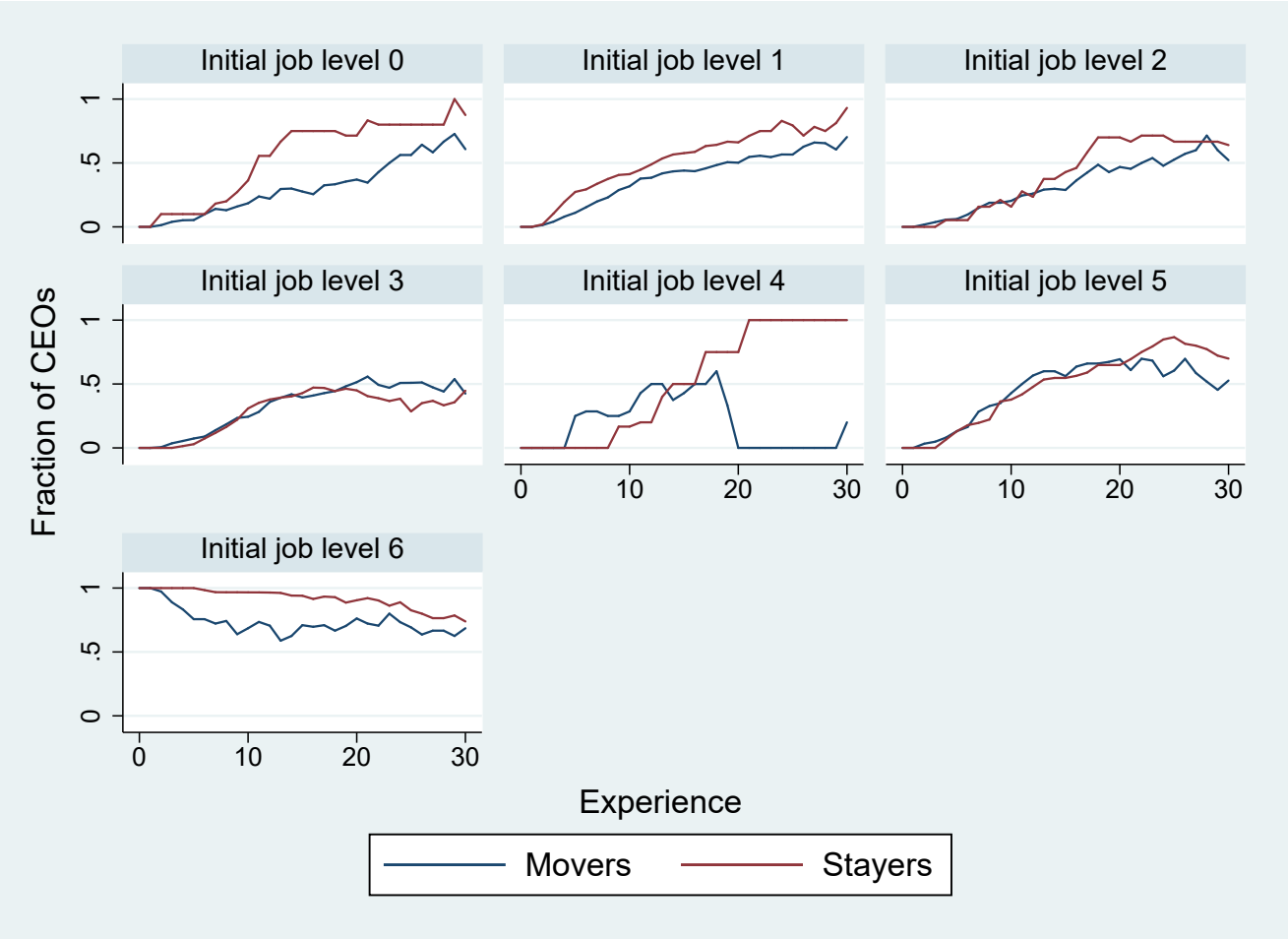
- Different initial job levels correspond to very different subsequent career paths.
- On average, men start with an initial job level between 0.4 and 0.6 notches higher than women.
- Graduate education is associated with an initial job between 0.3 and 0.4 notches higher.
- Graduating during a stock market crisis reduces the quality of the initial job by 0.2 notches.
- No significant effect of graduating in a recession year, in a bust or boom stock market.
- Cohort effects: worsening of initial position especially in the mid-1980s and mid-1990s.

Table

Career speed and stability

- Workers move across job levels mostly when they switch employer.
  - 85% of the job level changes, 88% of the promotions and 80% of the demotions happen across firms.
- 47% of the employer switches do not correspond to movements on the job ladder, 38% correspond to promotions and 15% to demotions. ▸ Figure
- Frequent churning across employers is **not necessarily** associated with higher speed.
- To dig deeper in this we look at the correlation between workers' mobility across employers and career speed and stability.
  - Mobility defined as number of switches divided by worker's career length. Mean 0.15, SD 0.08. ▸ Histogram

Fraction of CEOs and mobility across employers



- "Stayers" have faster careers than "movers" if they start from a low initial job, have comparable careers if they start from some intermediate job levels, and are more likely to retain their top position if they start from there.

Careers of high mobility individuals are slower

	Speed to highest job level		Ever CEO		Years to CEO	
	(1)	(2)	(3)	(4)	(5)	(6)
Mobility across firms×10	-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

- Speed to highest job level: difference between highest job level attained by an individual in his career and initial job level, divided by the intervening number of years. Mean=0.52, SD=0.47.
- Ever CEO: equal to 1 if an individual ever appears in job level 6 and 0 otherwise. Mean=0.62, SD=0.48.
- Years to CEO: number of years between college graduation and the first time an individual appears in a level 6 job. Mean=11.16, SD=7.32.

▶ Careers stats

... and more unstable

	Coeff. of variation of job level		Instability		Skewness of job levels changes	
	(1)	(2)	(3)	(4)	(5)	(6)
Mobility across firms×10	0.084**	0.085***	0.113***	0.108***	-0.865***	-0.773***
	(0.034)	(0.032)	(0.008)	(0.008)	(0.088)	(0.088)
Male	-0.180	-0.147	0.037**	0.051***	0.247	0.092
	(0.121)	(0.103)	(0.015)	(0.016)	(0.192)	(0.192)
Master	0.010	0.014	0.005	0.005	0.234*	0.220
	(0.050)	(0.055)	(0.010)	(0.010)	(0.137)	(0.137)
Recession	0.005	0.038	-0.022	-0.007	0.135	0.023
	(0.039)	(0.039)	(0.013)	(0.014)	(0.202)	(0.207)
Low (below 3)	0.310***	0.305***	0.084***	0.081***	1.738***	1.782***
	(0.047)	(0.044)	(0.013)	(0.014)	(0.232)	(0.235)
Medium (3-4)	0.106***	0.108***	0.039***	0.039***	0.933***	0.922***
	(0.030)	(0.035)	(0.014)	(0.014)	(0.276)	(0.277)
Career length FEs	No	Yes	No	Yes	No	Yes
Observations	1232	1232	1237	1237	1044	1044

- Coeff. of variation of job level: standard deviation of job level divided by the mean of the job level. Mean=0.47, SD=0.73.
- Instability: average absolute value of changes in job levels over the entire career of an individual. Mean=0.25, SD=0.21.
- Skewness of job level changes: skewness of the distribution of job level changes over the entire career of an individual. Mean=1.98, SD=2.27.

▶ Careers stats

Discussion

- Higher mobility across employers is associated with:
  - Slower advancement towards the highest job level reached in the career.
  - Higher probability of ever being a CEO.
  - More years needed to become CEO, conditional on ever becoming a CEO.
  - Higher instability of the job level and lower skewness.
- Low-mobility workers change job level less often but more consistently towards higher levels.
  - By staying longer with the same employer they allow more effective learning about their ability.
  - Different ability of employees - more promising ones choosing to switch to a new employer only when offered a substantial career advance.
  - Choices by firms - some workers being fired or forced to accept lower-level positions, which they soon abandon to search for more attractive ones.

Downside risk associated to employer's performance

- Are the careers of finance workers directly related to the performance of their employers?
- Focus on the segments of careers which involve employment at hedge funds, for which we have information about termination.
- Investigate whether, upon the liquidation of a hedge fund, the subsequent labor market options of its employees are negatively affected, and how persistent is this "scarring effect".
- Notice: timing of fund liquidation may be driven by workers' poor performance. We cannot distinguish between reputation and human capital loss.

Funds' liquidation and careers

- Exploit variation in the timing of funds' liquidation in an event study design.
- Focus on the first time a worker experiences a fund's liquidation and estimate:

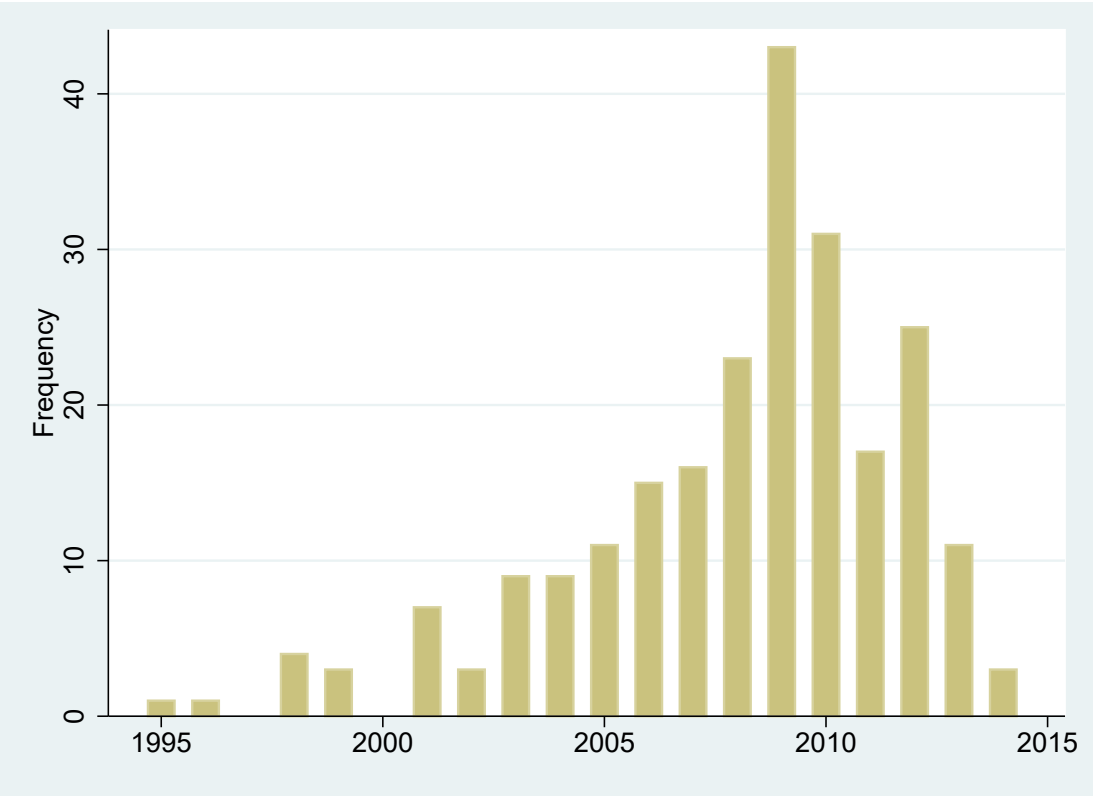
$$y_{it} = \alpha_i + \lambda_t + \sum_{j=-a}^{+a} \theta_j D_{it}^j + \epsilon_{it},$$

where

- y_{it} denotes the outcome of interest,
- α_i are individual fixed effects,
- λ_t are year fixed effects, and
- D_{it}^j are leads and lags of the first fund liquidation a worker experiences.

Variation in timing of liquidation events

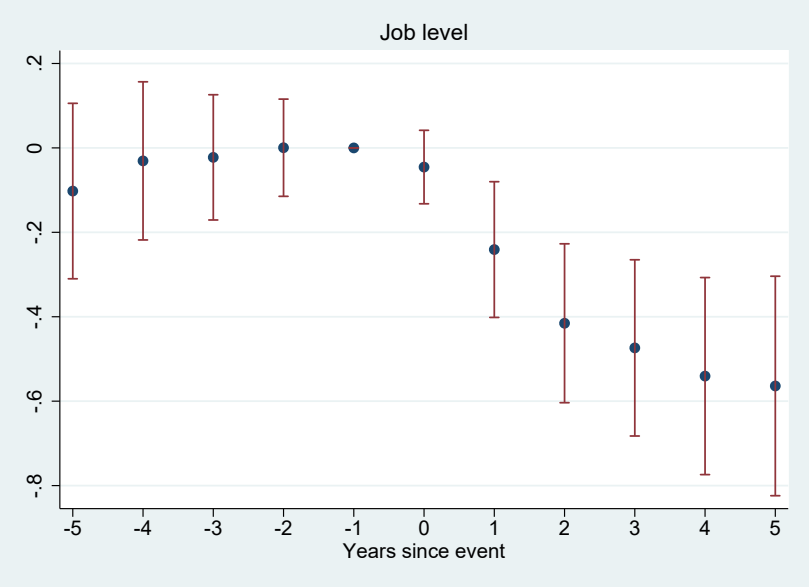
- The event study is feasible only insofar as different workers experience their fund's liquidation at different dates.



- Liquidations are more frequent during the Great Recession, but several liquidations also before and after.

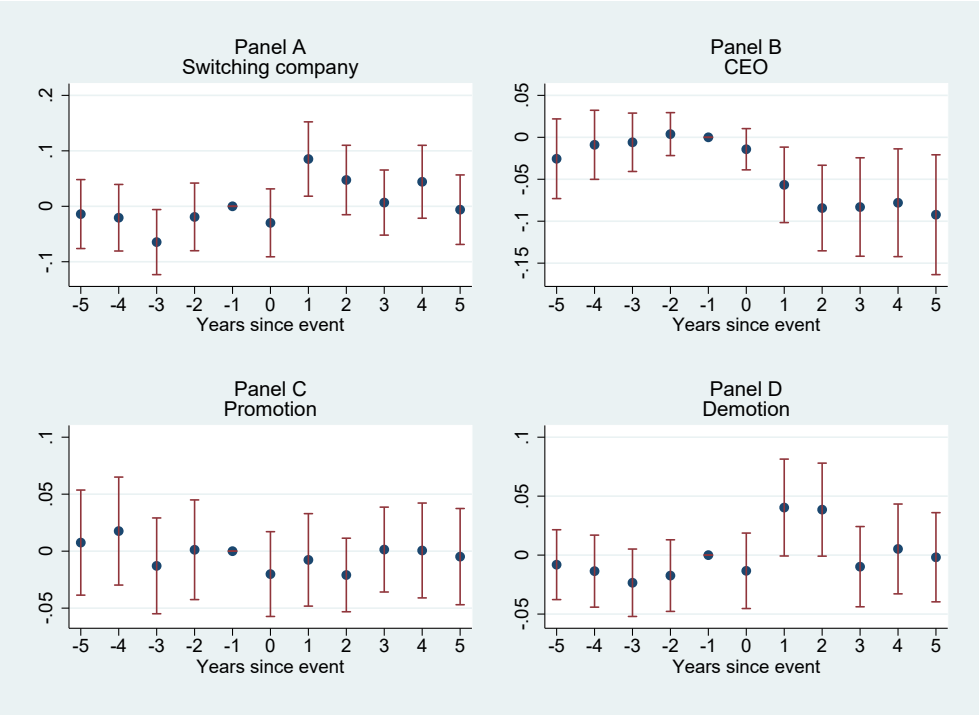
Persistent negative effect on job level

- The figure shows the point estimates and 95% confidence intervals for the θ_j sequence, with θ_{-1} normalized to zero.
  - θ_j can be interpreted as the change in the outcome from one year before the liquidation event to j periods thereafter.



- No pre-trends: job level is relatively constant up to the year prior to the liquidation event.
- Persistent negative effect on job level: 5 years after fund liquidation, job level is 0.6 points lower than the year before liquidation.

Detailing impact on careers



- Probability of switching to another company up by 10 percentage points in the year following liquidation.
- Probability of being a CEO down by about 5 percentage points in each of the two years following the event.
- No significant change in probability of promotion, but 5 percentage points (marginally significant) increase in probability of demotion.

Who is hurt by liquidations

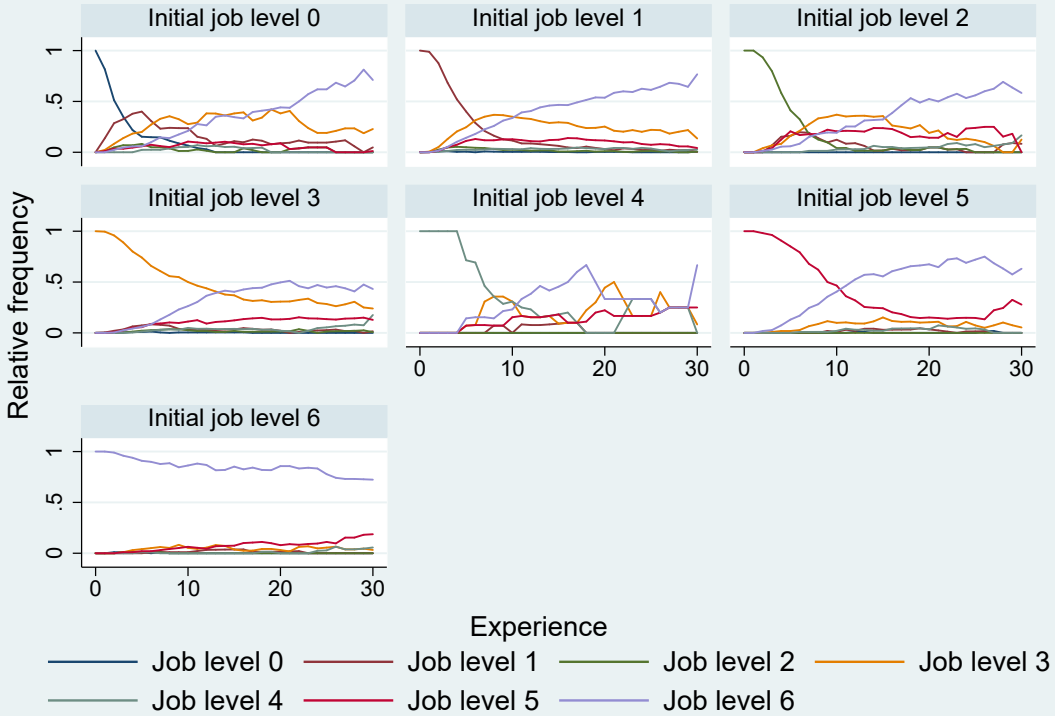
Scarring effects only present for:

- Workers in high-level jobs.
  - Reputation or loss of firm-specific human capital.
- Senior workers (experience $>$ 10 years).
  - Younger workers recover faster.
- Workers switching employer.
  - More severe event or negatively selection (e.g. firings) of switchers.

Summary and conclusions

1. Employees starting from low-level jobs rise faster and more steadily to top positions.
   Men have faster careers.
   Graduate education is associated with a better initial job, and with greater chance of becoming a CEO.
   Individuals who graduate in a recession take more time to become CEOs.
2. Job-level transitions are typically associated with switches across employers, but employees who switch employer infrequently have faster and more stable careers.
3. Careers of high-ranking employees are significantly and permanently damaged by the liquidation of the fund they work for.

Probability of each job level



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Descriptive statistics of workers' characteristics

	Obs	Mean	Median	SD
Education Level				
High school	1375	0.00	0	0.05
College	1375	0.52	1	0.50
Master	1375	0.44	0	0.50
JD or PhD	1375	0.03	0	0.17
Job level in first occupation				
Low (below 3)	1375	0.58	1	0.49
Medium (3-5)	1375	0.19	0	0.39
High (5-6)	1375	0.15	0	0.36
Cohort				
1962-1980	1375	0.08	0	0.28
1981-1985	1375	0.11	0	0.31
1986-1990	1375	0.20	0	0.40
1991-1995	1375	0.22	0	0.42
1996-2000	1375	0.19	0	0.40
2001-2005	1375	0.12	0	0.32
2006-2013	1375	0.07	0	0.26
Recession	1375	0.14	0	0.35
Boom	1375	0.31	0	0.46
Bust	1375	0.12	0	0.33
Male	1350	0.84	1	0.36

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Descriptive statistics of careers' characteristics

	Obs	Mean	Median	SD
Speed to highest job level	1040	0.52	0	0.47
Ever CEO	1375	0.62	1	0.48
Years to CEO	856	11.16	11	7.32
Instability of careers	1368	0.25	0	0.21
CV of job level	1361	0.47	0	0.73
Skewness of job level changes	1169	1.98	2	2.27
Mobility across job levels				
Change job level dummy	30853	0.09	0	0.28
Promotion dummy	30853	0.06	0	0.24
Demotion dummy	30853	0.03	0	0.16
Mobility across firms				
Switch	30853	0.14	0	0.35
Mobility across job levels conditional on switching firm				
Change job level dummy	4360	0.53	1	0.50
Promotion dummy	4360	0.38	0	0.49
Demotion dummy	4360	0.15	0	0.36
Mobility across job levels conditional on not switching firm				
Change job level dummy	26493	0.02	0	0.12
Promotion dummy	26493	0.01	0	0.10
Demotion dummy	26493	0.01	0	0.08

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Initial job, workers' characteristics and market conditions

	(1)	(2)	(3)	(4)
Male	0.604***	0.579***	0.596***	0.346***
	(0.126)	(0.128)	(0.126)	(0.128)
Master	0.366***	0.360***	0.359***	0.266**
	(0.106)	(0.106)	(0.106)	(0.105)
Recession	0.082			
	(0.158)			
Boom		-0.004		
		(0.116)		
Bust		-0.232		
		(0.173)		
Stock Market Crisis			-0.211*	
			(0.124)	
1962-1980				0.320
				(0.263)
1986-1990				-0.469**
				(0.204)
1991-1995				-0.308
				(0.201)
1996-2000				-0.901***
				(0.196)
2001-2005				-0.991***
				(0.225)
2006-2013				-1.030***
				(0.261)
Observations	1138	1138	1138	1138

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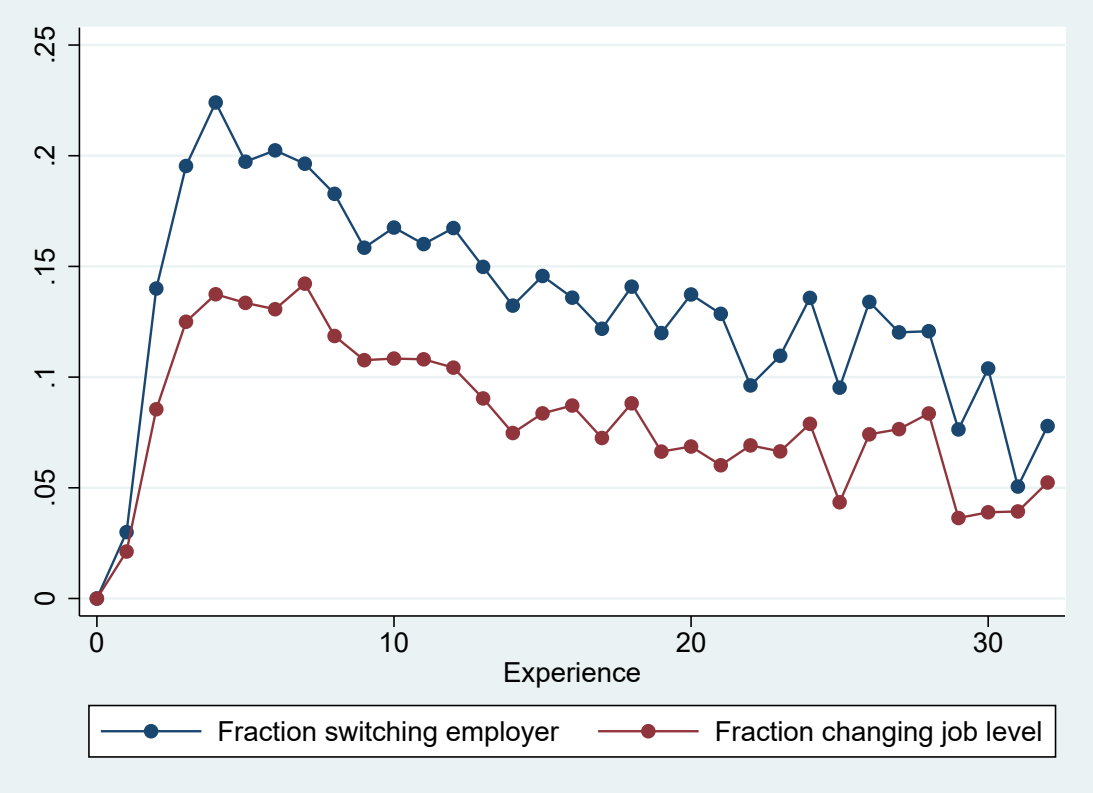
Mobility across employers and across job levels



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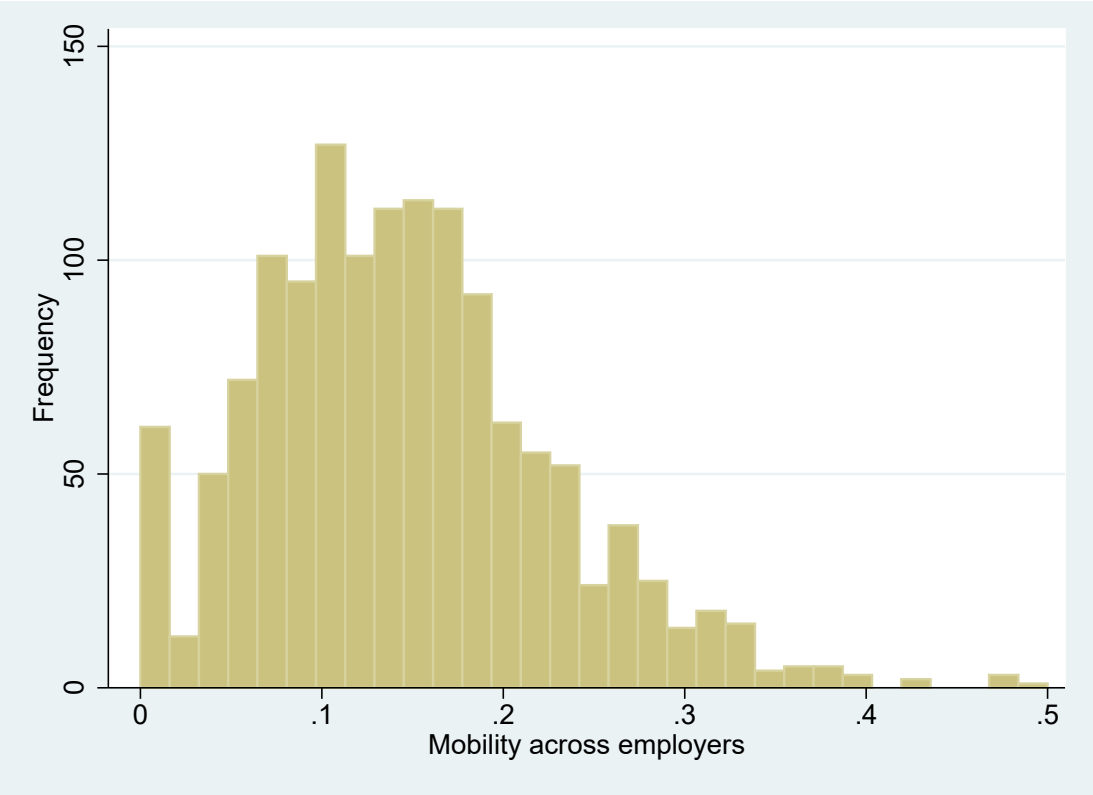
Histogram of mobility across employers

- N=1375



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