# Connections on WALL STREET

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## Are male and female analysts evaluated on the basis of different criteria?

SINCE the 1980s, women have outnumbered men among college graduates in OECD countries. Today, in the United States, even in law and medical schools, women account for about half of the class. Since 2010, women have been the majority of the U.S. workforce. Judging from these trends, women's advancement in education, labor participation, and economic empowerment is one of the past few decades' most significant social changes.

But this progress hides some stubborn facts. In particular, the ranks of women business leaders remain woefully thin, and women still face a glass ceiling in the corporate world.

### Thin at the top

Just look at the statistics for the "C-suite"—top corporate jobs such as chief executive officer (CEO), chief operating officer (COO), and chief financial officer (CFO). In 2011, only 8 percent of CFOs and 1.5 percent of CEOs of large U.S. corporations were women, compared with 3 percent and 0.5 percent, respectively, in 1994. Yes, this is a huge increase over that period. But the percentages have not increased much over the past five years, and the low absolute figures contrast sharply with women's advancement in education and labor force participation.

The stubbornly low female presence in the C-suite reflects women's broader lack of progress in business. Even though women pulled ahead of men in entering medicine and law, female enrollment in master of business administration (MBA) programs has been stagnant: it has hovered around 35 percent for more than a decade and shows no sign of increasing. According to industry-matched compensation data compiled by *Bloomberg Businessweek*, female MBA graduates earned a smaller percentage of their male counterparts' salary in 2012 than in 2002. Women lost ground on pay in 8 of the 11 most popular industries: the average pay gap widened from just under 3 percent to almost 7 percent over the decade (Damast, 2013).

There are many explanations for gender differentials in the business world. The wage gap reflects in part the different types of jobs men and women do, even in the same industry: client-based work involving travel versus office-bound back-end work, for example. But the glaring difference between the number of women who graduate from college (and business school) and the number who eventually make it to the top of the business world reveals the glass ceiling women still face: women are promoted far less frequently than their male classmates.

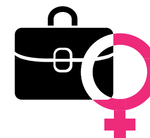
Why is the business world still unfriendly to females, even after decades of promoting gender—and other forms of—diversity? Part of the answer lies in work-life balance and female attrition in the corporate world. Many promising young women quit work when they start to have children, and a large number find it difficult to regain the same position and momentum if and when they return. Some argue that women are not aggressive enough in self-promotion. Lois Frankel writes that "nice girls don't get the corner office" because they don't ask (Frankel, 2010). Sheryl Sandberg, COO of Facebook, argues that women don't "sit at the table" enough and don't raise their hands enough (Sandberg, 2010).

Frankel, Sandberg, and other powerful women argue their positions with eloquence. But these views implicitly suggest that women themselves are at least partly to blame for the problem: choices women make to drop out of the workforce or not seeking promotions have negative consequences for their career path—hence, the observed glass ceiling.

### Patterns on Wall Street

But there might be another factor that has nothing to do with women's choices. It simply reflects the fact that women and men are evaluated—and promoted—by different criteria. I myself was surprised by this finding, after examining how stock analysts are evaluated and promoted on Wall Street.

Wall Street is a fascinating place to study gender and performance evaluation. First, although it is legendarily male dominated, after decades of promotion of gender diversity,



women account for close to 20 percent of Wall Street analysts—a proportion much higher than the female presence in the corporate C-suite. Second, Wall Street is notoriously clubby. Thus, "who you know," or your social network, can make a big difference in performance and career outcomes. Third, Wall Street is highly competitive. The difference between success and failure is the difference between making millions of dollars and losing one's job.

With the help of my doctoral student, Sterling Huang, I examined male and female analysts' performance—how accurately they forecast companies' earnings and made stock recommendations—and their career outcomes. On Wall Street, one ultimate success indicator—and therefore the career outcome measure we looked at—is the "all-star" status awarded by the influential *Institutional Investor* magazine based on an annual survey of thousands of investment managers who are asked to vote for the best analysts of the year. The resulting all-star list has a huge influence on analyst pay: winners of the title, on average, make about three times what nonwinners do.

We were particularly interested in whether and how analysts' "connectedness" influences their career outcomes. We measured connectedness by whether analysts have an alumni tie to at least one director or senior officer of each company they cover. We found a number of interesting patterns in our sample of thousands of analysts spanning 17 years (1993–2009).

Female analysts are, on average, better educated than their male colleagues, at least as measured by the number with Ivy League degrees. Nearly 35 percent of the female population are Ivy Leaguers, compared with 25 percent of men. This figure is consistent with the idea that only the most competitive female graduates enter the Wall Street labor market.

Female analysts, on average, tend to cover slightly fewer firms than men. This is perhaps a reflection of the challenges for women in maintaining work-life balance.

Surprisingly, female analysts are, on average, just as connected as their male colleagues: they share a school tie with a senior officer or board member in about 25 percent of the firms they cover.

Finally, there is no overall gender bias in the odds of becoming an all-star analyst: women account for about 12 percent of the overall analyst sample and about 14 percent of the all-star sample. Not only is this good news because it indicates gender equality, but to economists it also means that the two samples are similar enough to yield meaningful inferences.

### Different criteria

But this is where the symmetry ends. When we examine analysts' connectedness and its impact on their career advancement—that is, whether they are voted all-stars—we find an intriguing asymmetry.

For women, we find that performance forecast accuracy is important: making inaccurate forecasts hurts a female analyst's chance of being voted an all-star. We also find that Ivy League degrees and years of experience matter, and both contribute positively to the odds of being voted an all-star. After accounting for these factors, however, connections, per se, do not matter for female analysts.

For men, however, we find almost the opposite. Connectedness remains one of the strongest factors that enhance men's odds of being voted an all-star, even after accounting for forecast accuracy and Ivy League attendance. In fact, the latter two factors have no significant impact on men's odds of being voted an all-star.

The interesting thing about our finding is the *asymmetry* in the factors influencing men's versus women's likelihood of being voted an all-star. For women, forecast accuracy and education mattered. For men, neither was very important; rather, connections mattered. Interestingly, this is not an "Ivy League effect." If it were, women would have the upper hand: in our sample, more of them attend Ivy League schools than do men. Our results show that for women it is performance or demonstrated competence (proxied by high educational achievement) that matters, while for men it is soft information, such as their connections.

**Our results show that for women it is performance or demonstrated competence that matters.**

I am not a feminist nor an expert on gender issues. I stumbled on these findings virtually by accident as a result of my curiosity as a financial economist. But they have helped me understand a number of patterns.

For example, while 14 percent of Wall Street all-stars are women, virtually none of the top bosses in any of the big firms are. Where did all the highly educated, highly connected, and high-potential women go? They largely remain in analytical roles rather than being promoted into general management, which entails subjective evaluations.

There is slow progress, even in the C-suite. A recent Bloomberg article reported that in 2012, the number of women CFOs at Standard and Poor's 500 companies increased 35 percent, from 40 to 54, to a record high of 10.8 percent.

But moving to the top remains difficult. The proportion of women CEOs remained at 4 percent in 2012, also a record but one that has not changed for five years. The asymmetry in women's success at breaking these two C-suite glass ceilings is telling: it is far easier for women to demonstrate technical and measurable skills than to overcome potential bias in subjective qualitative evaluations. ■

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