

WHY ARE THERE SO FEW WOMEN IN UK ASSET MANAGEMENT?



20 August 2018 - Ric van Weelden

Consultations conducted between March and June 2018 with senior women and minority men in UK asset management about the potential causes and possible solutions.

Introduction

The UK asset management industry as whole does not score poorly for women participation. However, if CFA membership is used as a gauge, the numbers drop precipitously. Only 20.2% of the CFA Society of the UK members are women¹. Of CEO and CIO members only 10% are women. The CFA Research Institute does not specify this number by country but specifically with respect to the UK, Citywire established that just 9% of investment managers in the UK are women. Investment management does not merely score poorly in absolute terms, it does even more so relative to other professional services. In the UK, 44% of accountants are female, 48% of GPs and 24% of solicitors at partner level.

Why are there so few women?

This was the topic of my INSEAD EMCCC² thesis. In order to help answer this question I conducted 16 interviews with leading women and two minority men between March and June 2018. The purpose of the consultations was to establish factors contributing to underrepresentation of women in the investment management industry, besides exploring the reasons why most gender diversity management programs have been ineffective. In particular, the interviews sought to meet three research objectives: (i) to establish the factors contributing to underrepresentation of women in the investment management industry; (ii) to find out why diversity management initiatives have been less effective; and (iii) to recommend measures through which the effectiveness of the current initiatives can be enhanced to address gender balance and improve diversity.

The sense of it all

Mercer's study *When Women Thrive, Businesses Win* points to a 'significant body of research and industry reports' suggesting a correlation between increased female representation in the

workplace and enhanced organisational performance, including better financial performance.

A review conducted as part of my thesis indicates that an increase in gender diversity by 1% leads to an increase in company revenues by 3% or more³.

Several interviewees affirm their view that a causal link between cognitive diversity and performance should make better gender balance a reality. It cannot be achieved merely on the argument of social justice. Having said this, companies that are socially just are more likely to gain employees trust, confidence and commitment than those which are not⁴.

There is no reason to assume that the arguments of performance and social justice would apply any less to asset management than other industries. "Asset management is by its very nature a highly complex profession which looks at the big imponderables and human complexity" one interview states, which would imply that gender balance and cognitive diversity are, if anything, even more crucial than elsewhere.

None of the interviewees insist on better gender balance as the key objective while several insist on cognitive diversity being so. The latter will clearly not automatically lead to the former but any improvement should at least stick due to the clear impact on better organisational effectiveness and performance.

Unfortunately, I have seen more than one previous employer perform poorly or even go out of business due to un-diverse, biased leadership which did not manage to fully and accurately assess its challenges. This was particularly acute where the organisation's competitive landscape was much more international and culturally diverse than its leadership. It is this experience that motivated me to embark on the INSEAD programme and to pick the topic of this article for my thesis.

¹ Gender Diversity in Investment Management, new research for practitioners on how to close the gender gap, CFA Research Institute Research Foundation 2016.

² The INSEAD Executive Master in Consulting and Coaching for Change (EMCCC) is a degree program which focuses on building better functioning, more effective organisations by looking at the basic drivers of human behaviour and the hidden dynamics of organisations. It integrates business education with a range of psychological disciplines.

³ Mercer. Gender pay: Manage risk, deliver business performance. Retrieved February 18, 2018.

⁴ National Education Association. (2012). Diversity Toolkit: Social Justice. Retrieved February 26, 2018, from <http://www.nea.org/tools/30414.htm>



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Possible causes

Several observations were made concerning the first two research objectives. For the first objective, this study established that the primary factors contributing to the gender imbalance in the investment management industry include: (i) the arcane nature of an industry, misinterpreted through its association with finance and banking and, on top of that, tarnished through negative publicity triggered by the financial crisis (ii) the poorly understood nature of its social value and perception of elitist unattainability for lesser mortals, (iii) perceptions and stereotyping among men that they are better at investment management than women,

some of it reflected in the cult of the star fund manager, (iv) the industry leadership structure and male cultural issues, (v) unconscious bias on 'both sides' and (vi) the lack of flexibility necessary to accommodate women held up by family issues.

Clearly, the first three are unambiguously industry-specific, factors iv and vi are more generic while v is a blend between the two.

Concerning the second objective, it was observed that the ineffectiveness of gender diversity initiatives can be attributed to three factors.

- First, the failure to break the deadlock where women refrain from self-promotion and, as a consequence, are not singled out. One of the interviewees talks about men being conditioned to enter the 'rough and tumble' of corporate life and, as a consequence, are more prone to take risk. Sheryl Sandberg⁶ calls this the jungle gym;
- Secondly, diversity programs have not been perfectly structured, since they fall short by narrowing their scope, neglecting business strategy, as well as organisational life and do not focus on the need to 'rewire';
- Lastly, organisations have mostly failed to play a role in ensuring successful gender diversity at their workplaces through ineffective or insufficiently effective maternity and paternity leaves and work flexibility and by insufficiently championing equal pay for both genders, amongst others.

The arcane nature of an industry

According to one interviewee, asset management is by its very nature a highly complex profession which looks at the big imponderables, human complexity, global and local politics, macro and unpredictable trends against which judgement needs to be made. It is this complexity which makes it exciting and which requires diversity of thought and views versus the traditional male 'taking a punt' thing. The problem is that people outside the industry do not understand what fund managers do. "Shortly after graduating and contemplating my career options I drove around the City and found the place looking drab and gloomy". Its complexity and its ephemeral nature is lost on most who simply see it as an embodiment of finance and as 'rather dry', populated by the elite whose prime motivation is getting rich quickly.

Is this the reality? More than one interviewee talked about first-hand experience with 'blokey culture' which appears to drive out women as they grow in seniority. While there is no direct connection between this issue and the previous point it appears to provide circumstantial evidence.

Whether or not the world of asset management was more diverse

⁵Listed chronologically by date of interview.

⁶Sandberg, Sheryl, Lean In, Women, Work and the Will to Lead, Alfred A. Knopf, ISBN 978-0-385-34994-9

in the past turns out to be a contentious issue. Some interviewees refer to an impression that the diversity in background is down as the industry grew more 'professional', i.e. fewer graduates with modern languages, history or other liberal arts majors and more with a business, finance or mathematics degree. The original cause of this diversity may have been the removal of currency exchange controls in the late seventies: "Firms were recruiting for modern language skills because investment and clients became more international. Now, there is less need for languages, more research is conducted online, there is more quality broker research". A dissonant voice commented that this historic diversity was really a demonstration of elitism: "It did not really matter what you had studied, provided you had the right background and gone to the right school and university."

One interviewee saw a disproportionate number of women in their 30s and 40s leave the industry at the time of the financial crisis. "It was a combination of redundancies disproportionately hitting women but also women putting more value into trust and reputation than men. The tarnishing of the industry had an adverse impact. I do not have concrete data to support this, but it surely feels like this has been the case". This is a debatable point as financial necessity may well have prevented men from doing the same.

The poorly understood nature of its social value

"Asset management should really be about delivering for people's ability to earn a pension or buy a house" comments one interviewee. This statement about the purpose of asset management and its social value is hard to argue with. The opacity of the industry, a drawn-out bull market and lack of scrutiny created the impression that this social value was actually delivered but at a cost whose lack of proportion was left unidentified. How much alpha is being generated while you are riding a beta wave? The persistence of low yields, more intrusive oversight, advance of technology and evolving customer demand are bringing about the 'normalisation' of an industry which was allowed to defy gravity and to behave differently than any other.

The social purpose of asset management should drive change. "We did not take responsibility for the financial crisis, we do not take up macro or micro issues. We need to be a conduit of what we say and what we do and have got to speak up as an industry. To give you an example, we were invested in Northern Rock, went out of the stock well before the firm collapsed and helped cause the financial crisis. We never spoke up about it."

Are men better at investment management?

Asset management was traditionally not a team sport. Investment consultants contributed to the problem, by liking and promoting

the phenomenon that individuals were better at managing money than teams. "The question to ask is whether men are really better fund managers. They typically focus on the upside potential while women focus on downside risk. There is an asset class angle to this. In fixed income, there are less star fund managers which may explain the relatively high presence of women, although admittedly this is more a perception than a verified fact."

An Economist article⁷ references a study in 2010 by Brad Barber and Terrance Odean, behavioural finance academics which showed that women outperformed men in the market by one percent per year. The main reason, they argued, was that men were more likely to be overconfident than women, and hence more inclined to carry out unprofitable trades. Men are also more likely to say that outperforming the market is their top investment goal whereas women tend to mention specific goals, buying a house or saving for retirement."

The industry leadership structure and male cultural issues

"We have grown up in a culture of the assertive, command-and-control chief executive and of groupthink. It is very hard to disrupt." The complex and uncertain nature of today's environment requires a feminine leadership style which does not necessarily mean that the CEO should be a woman. "It is about leadership which embraces cognitive diversity in pursuit of the best possible strategy and operational effectiveness." One interviewee refers to the Harvard University Implicit Association Test taken by over six million people which establishes that 70% of white people prefer a white leader while 50% of black people prefer a white. This problem is obviously not exclusive to asset management and it is rather intractable: "We subconsciously hold the belief that success and leadership equals white men."

Several women talked about the male culture of organisations where "men are fixated on outdoing each other, or 'boys being boys together'. The further up you go in an organisation, the more annoying and demoralising this issue becomes. It is jockeying for power at the top of the tree, which does not really contribute to better functioning organisations but which is simply engrained in male behaviour". "Men get more used to jostling and joggling and no harm done. It is just the 'rough and tumble' of life for them. Women tend to drop off in their 50s as they rise through the ranks and get fed up with this behaviour. Men become more conditioned not to have an emotional response. My son talks about the Silverbacks at work."

The same person explains the difference between diversity and inclusion: "the first is about being invited to the dance, the second is about being invited to dance." While nobody else refers to this rather profound distinction it is similar to the contrast between tolerance and acceptance. The latter in both cases should naturally follow the first, ideally.

⁷ 'Investment by women, and in them, is growing' Economist 8 March 2018

Unconscious bias 'on both sides'

Unconscious bias one way

Sheryl Sandberg in her book 'Lean In'⁸ analyses the riddle of girls performing better in school and academia after which they fall behind in professional life. Sandberg blames this on a lack of assertiveness and self-belief. She refers to a study which shows that men apply for jobs if they feel they have met 60% of the criteria of the skill requirements, for women this number approaches 100%.

This problem may partly explain why the numbers in asset management are worse than in other professional services where academic training or pre-job qualifications gets you closer to the 'real thing' (law, accounting, medicine) compared to asset management which requires more on-the-job training and experience.

Sandberg also refers to a factor which she labels the 'tiara effect': women believe that if they keep doing their job right, someone will notice them and they will get promoted. According to Sandberg women should more actively pursue risk, ask for promotions and join the 'jungle gym'.

Several interviewees mention a male mentor who pushed them out of their comfort zone as a key factor explaining career success.

Unconscious bias the other way

Men appear to unconsciously read the above as a lack of ambition. Is it that less women aspire to senior jobs than men (as Sandberg claims) or it is that people in position of authority interpret behaviour described above as indicative of a lack of ambition? A revealing interview with a black male may hit the nail on the head: promotion and career advance is possible but people outside the white, privileged male circle tend to be promoted on experience rather than on potential. This equates with a similar statement from one female interviewee who believed the same problem applied to women. It logically appears that men, subconsciously or not, tend to favour those they are familiar with and to which they ascribe skills and attributes similar to their own. Therefore a white, privileged male is more likely to promote another white, privileged male based on potential and may promote others based on evidence of relevant experience.

Inflexibility around maternity and paternity leave

The belief that the culture of presentee-ism is pointless and undermining the pursuit of gender balance and diversity, was widely held amongst the sample group. "The basic activity of asset management does not require long hours behind a desk." "A good fund manager hardly trades anyway, so why would (s)he constantly need to focus on their portfolio(s)?"

On top of this, technology and cost pressure is forcing an increasing number of people to hot desk: "it is causing a shake-up around working practices and also around men's roles."

Maternity versus paternity leave is an important issue: "it is all about showing people that life is about opportunity and about

flexibility for everyone. Generous maternity leave is not the issue, it is generous paternity leave which would be really helpful. Generous maternity leaves are actually part of the problem: the longer you are out, the bigger the issue. Generous paternity leave is also a question of education, people need to buy into its value. The take-up of paternity leave has really been abysmal to date."

While the topic is not specifically raised, the provision of convenient child care facilities by the employer should greatly help in shortening maternity leave and in combining careers and parenthood.

Recommendations

The stars are clearly aligned for cognitive diversity and improved gender balance to stick. They are clearly different things but any affirmative action around the latter will merely amount to sticking plaster which will peel off, if it is not embedded in an improved awareness around the benefits of the first and organisational initiative around its implementation. The Redington case study below is one example how this can work.

Effective implementation of cognitive and identity-based diversity programs require the adoption of organisational cultures that value differences and diversity, evidenced by the recruitment of individuals who have a different approach to management and leadership issues. Accommodating people who have different thinking styles and perspectives enable organisations to become more innovative, improve their ability to handle complex tasks or processes, and promote gender diversity.

There are some additional points which are worth considering at an organisational or individual level:

Change recruitment and promotional culture

- The asset management industry needs to see recruitment not merely as a process of bringing in someone who fits within the existing structure and culture but rather as a process of bringing new energy and change to improve team effectiveness, creativity, innovation and performance in the organisation. The leadership in this industry needs to embrace a cognitively diverse workforce by committing themselves to an evolving culture that values differences, respectful conflicts, and thinking outside the box.
- Organisations need to review promotional culture. Too many organisations have not addressed the subtle bias in promoting on potential or experience, Vanguard being one of the notable exceptions which I have come across.

Change organisational culture

- Improve awareness over the advantages of diversity. In order to promote cognitive diversity, the leadership must create awareness, eliminate barriers that may inhibit the development of cognitive diversity such as leadership that shuts down subordinates or members from a particular gender or race and implement strategies that aid in harnessing cognitive diversity and other diversities.

⁸ Same as footnote 6

Kill 'blokey culture'

- Organisations need to eliminate the 'blokey culture' which perpetuates unconscious gender-based biases held by men and women in leadership and which makes women give up because they get fed up. It will not merely have consequences for organisational culture and work practices, it may also have to involve a review of extra-curricular activities. This is not as simple as matching existing practices around pub visits and football playing with spa visits for the ladies. Blokey culture can be fun if you are a bloke but, in the long run, it appears to undermine organisational success.

Throw away dead men's shoes

- Particularly with respect to the investment management function, organisations need to be wary of the cult of the individual. The whole industry (including investment consultants) has worshipped the star fund manager who is almost always male. It hinders promotion and often only gets addressed when outperformance has petered out, or worse. As part of this, the practice of naming your successor is still too wide-spread.

Forget presentee-ism, be open-minded about parental leave and work flexibility

- Presentee-ism is more pervasive in asset management than elsewhere due to the belief that it is a profession in which one cannot afford to 'take the eye off the ball'. Several interviewees debunk this myth. While there may be investment styles for which this is essential, for most it is not. One of my former employers - who had a wide spread work force with many rarely coming into a company office - promoted the concept of energy rather than time management. Presentee-ism is clearly linked to the latter and was deemed to be pointless. The organisation stimulated time off and gym use during office hours in the belief that productivity would increase.
- Work flexibility should be built around a willingness to accommodate different life styles and responsibilities. Modern technology allows for this and can also be applied to achieve cost savings. LGIM is implementing a hot-desking policy allowing it to optimise the use of expensive office space.
- Child care facilities close to the office where possible can reduce the need for lengthier maternity leave and help parents manage their family and professional responsibilities.

In addition to the points listed above, individual women and minorities need to think about their own personal beliefs and be mindful of the need to take risk, build recognition and not be bashful about self-promotion. While Sheryl Sandberg calls this 'joining the jungle gym' it should be clear that nobody wants to end up as 'the greatest artist to be discovered posthumously, or worse.'

Redington - diversity case study

Redington initially struggled with the same gender challenge as many do of not being able to maintain gender balance beyond entry level and beyond roles typically ascribed to women, e.g. reception, HR versus IT. "The board has race balance with one white, South Asian and black male but is it diverse?" CEO Mitesh Sheth asks himself rhetorically. "Every organisation needs to ask itself three questions: why should we do it, what will we do and

how will we do it?" Redington no longer ponders over the 'why question' as the benefit is undeniable and because it is the right thing to do: "making 100m people financially secure begins with fair and equal access to work and income."

In its pursuit of diversity the firm applies four markers: gender, race, educational background and personality type. In its pursuit to address these markers some innovative initiatives are applied.

Recruitment does not merely look at red brick university graduates but also at apprentices, school leavers and university drop-outs, in not merely hiring math and finance graduates but also humanities and arts majors. Redington has been flagged for its returnship programs, focusing on senior women who have been out of the industry for two to ten years, taking care of children or elderly parents. The firm works with Dominic Moss and her Return Hub, specialising in women returning to work. "In our first round, we offered five three-month internships to returning women, four of which have been converted into permanent employment. Our experience so far really is incredibly positive. We are now looking at other overlooked groups such as military veterans and retired people."

Five years ago Redington launched RedSTART, a financial literacy and entrepreneurship education program aiming to build confidence, drive and ambition in young people in London. It is teaching about finance, the City and aims to debunk the perception of a shady, dark industry which tries to make money for itself.

Personality type is an unusual marker but one which Redington believes to be key to bring about cognitive diversity. "We wish to reward innovation and entrepreneurship. We now need to maintain the balance which is now our problem." "We have learned through trial and error. Our initial starting point was to encourage volunteers: 'put your hand up if you are willing to try and get involved!' We now realise that this favoured the extroverted male. Many women will not put themselves forward as easily. We need to be mindful of this."

Gender and race still require work: "we do not have enough black males, nor do we have Muslim women. Still, we have covered a long distance in bringing about diversity in gender, race, social and educational background, personality type. I think the whole industry is at a tipping point. It will become better as a result."

Meanwhile, the firm has become one of the first financial services firm to close its gender pay gap entirely, which went from 21.6% (with an industry average of 26.2%) to 0.2% in one year.

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