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.

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<th>Table 5. Career path and mobility across employers</th>
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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!