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Industry Voices

Commentary: Pay gap paradox

How the U.K. gender gap study will give women in the asset management industry more leverage


Kirsty McAlpine and Beth Rustin

By Kirsty McAlpine and Beth Rustin

The glass ceiling still hasn't shattered, but it is definitely cracking. The latest hammer to gender pay gaps came on April 4, the deadline for all U.K. employers with 250 or more staff to report the difference between what they pay female and male employees. The mandate included U.K.-based companies, as well as U.K. subsidiaries of U.S. firms.

The results were unsurprising. The government's data revealed that about three-quarters of large U.K. businesses pay men more than women, with an average salary premium of 9.7%.

The gender pay gap was especially pronounced in the asset management industry. The average pay gap across asset management groups was 28.5%, with a bonus gap of 55.4%.

These numbers confirm what we already know — men consistently earn more than women, in part because women are underrepresented in senior roles. This is true in almost every industry and every country. But while the data itself should be taken with a grain of salt, the biggest accomplishment of the U.K. gender pay gap study is how it changes the equation for women in the fight for equal pay.

With greater transparency into what their male counterparts earn and greater pressure on asset managers to close the gender pay gap, women now have the tools necessary to negotiate for a better position and a higher salary. Women, and particularly women in the asset management industry, today have more leverage than ever to finally win that fight.

However, few female candidates realize how much leverage they have and even fewer know how to take advantage of it.

Leveling the playing field

The push toward greater transparency on gender pay gap ratios, both in the U.K. and around the world, builds on two larger secular trends that are rapidly redefining the asset management industry.

From our nearly two decades of experience recruiting for asset management companies, we know that women tend to be underrepresented in the asset management industry — not because of an inherit bias on the part of employers, but because many women choose to go into other industries.

Research from Morningstar Inc. revealed that just 7% of investment managers in 2015 were female, down from 10% in 2009. Only 1 in 5 funds globally has a female portfolio manager, whereas in the U.K. the number is fewer than 1 in 10 funds. Statistically, women are much more likely to become doctors, lawyers or accountants than investment managers.

But change is at hand. Already, we are seeing more women graduate college than men. More women are studying mathematics and engineering — two fields of increasing importance in the asset management business — as well as business and finance. For the first time in almost a millennium, Oxford University — a significant talent pipeline for the asset management industry — last year admitted more female students than males. In time, this should result in a much stronger talent pool of female candidates.

Asset management firms also are taking steps to attract and develop more female talent. In 2016, a group of financial services firms launched the Diversity Project, a five-year U.K. campaign to promote employee diversity that is today backed by many of Europe's largest asset managers including:

- Aberdeen Standard Life;
- Allianz Global Investors;
- Aviva Investors;
- Columbia Threadneedle;
- Fidelity International;
- HSBC Global Asset Management;

- Investec;
- Invesco (IVZ);
- Legal & General Investment Management;
- M&G;
- Schroders; and
- Wellington Management.

These efforts are a step in the right direction. As more women pursue careers in investment management, the more they will rise through the ranks and adopt senior positions.

Another factor that plays to the advantage of female candidates is what we call "gender alpha." There is a growing body of evidence that asset managers with a higher representation of women, and particularly women in senior roles, tend to perform better.

Morningstar found that having one or more women on a fund's management team improved the odds that a new fund's launch would attract enough assets to be successful. Research from Morningstar also showed that while the performance of exclusively women-run funds rivals that of men-run funds, mixed-gender investment teams provided the best results. Within the hedge fund industry, a KPMG study in 2015 found that women-owned and women-managed hedge funds have outperformed both the HFRI and HFRX composites of hedge fund performance nearly every year since 2007.

Intuitively, this makes sense. Investors are naturally prone to groupthink, and the best way to ensure there is a diversity of opinions is to have a diverse portfolio management team. By adding women to the room, asset managers will be better able to spot investment opportunities and identify potential sources of risk.

Winning the negotiation by playing the right cards

Most asset managers want to see women on the shortlist for any search, but that's easier said than done. There is a striking shortage of strong female candidates for high-level positions, a reality that is best explained by the lack of women now working in asset management, particularly in front-office roles.

While more women are entering the asset management industry every day, it will still take several years to reach full gender parity. According to research by PwC, it could take 95 years for the group of countries in the OECD to close the gender pay gap based on the current rate of progress. (Here's hoping gender gap studies and government policies throughout the developed world help to speed up that rate of progress.)

But in the meantime, women who do want to work in asset management are in an advantageous position. Unfortunately, many women don't realize how much leverage they have in the hiring process. Compared to men, women are statistically less likely to ask for higher salaries and pursue more senior titles, even if they are equally qualified.

This mindset needs to change. Women need to be more aggressive in asking for what they want, rather than settling for what they think they deserve. It means reaching for a higher salary range, asking for a more senior title and, if necessary, comparing potential employers with each other to secure the best offer. With asset management companies under intense pressure to narrow gender pay gaps and increase diversity at the senior levels, the chances are good that employers won't only focus on cost. At worst, employers might try to negotiate the price down to something more in line with their initial expectations. But like with any negotiation, it's all about leverage. Women seeking a senior-level position at an asset management firm should understand now that they hold many, if not all of the cards. The only way to win the game is to play those cards.

Asset managers, for their part, could do more to make themselves attractive to strong female candidates. Companies that do more to accommodate women — for instance, by guaranteeing a generous maternity leave or offering work-from-home flexibility for moms — are more likely to attract and retain strong female talent. Some companies might choose to volunteer gender and salary data beyond what is required by governments. Many firms already are stepping up — BlackRock (BLK) Inc. (BLK) in 2017 publicly shared data on the ethnic diversity of its U.S. workforce and CEO Larry Fink stated his commitment to gender diversity, saying, "we are going to need more women in our firm." In a similar move, Investec recently announced that by 2023 it wants to have women in 30% of senior leadership roles and changed the firm's recruitment processes to ensure it can meet that target.

Such commitments are likely to become the norm as asset managers compete for the same pool of female talent, ultimately providing women with even more leverage. The tides are clearly turning in favor of women. It's now up to women to play their cards right and continue to fight for what they deserve.

Kirsty McAlpine and Beth Rustin are partners in the London and New York offices, respectively, of Jamesbeck Global Partners. This content represents the views of the authors. It was submitted and edited under P&I guidelines but is not a product of P&I's editorial team.