

Going Long on Talent

DIVERSITY, EQUITY AND INCLUSION | INSIGHT | FEBRUARY 2023

During my tenure as chief investment officer of the New York City Retirement Systems, I became frustrated by the lack of female money managers in the investment industry, especially women of color. We know that diversity of thought can help to maximize investment opportunity and minimize risk. It seemed to me that the world's \$100 trillion of professionally managed assets was missing out because of their absence.

After many conversations with asset owners and asset managers on this issue, in 2015, I founded “*Girls Who Invest* (GWI).” As an organization, GWI works to fill the financial industry pipeline with young women investors, thanks to a program that includes intense training by leading academics, followed by a paid internship at a top investment firm. The majority of these young women come from diverse ethnic and socioeconomic backgrounds; many are the first in their families to go to college. As a cohort, they would arguably struggle to gain entry into our industry because they lack the “right” education or connections, despite showing the tenacity and will that come with working three part-time jobs to pay tuition or learning English alone at the public library after coming to the U.S. as a refugee. It is a truly incredible—and driven—group.

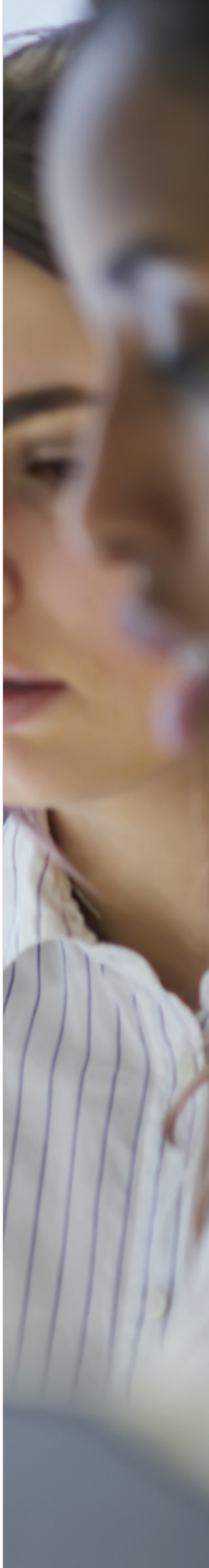
The power of this kind of training now seems obvious. It is the purposeful, painstaking work necessary to diversify an industry that most young people know little about. Convincing financial firms to consider female interns from unconventional educational backgrounds was not easy, but the program is working: 70% of the GWI graduates stay in

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investment management or banking, often taking full-time jobs at the companies where they interned.

Morgan Stanley Investment Management (MSIM) is one of GWI's largest partners. In the summer of 2022, we took on 10 summer GWI interns. Since then, we have gone on to hire eight GWI alumni, who work full time on teams helping to invest \$1.3 trillion¹ in assets for our clients.

“Bias and sexism exist and family obligations and lower pay often drive women’s choices”

The Pipeline is Growing — Then What?

So, what’s next? Although we need to keep expanding the pipeline of diverse, talented young women entering the industry, we won’t achieve significant changes without the next big leap: Deliberate work inside our industry to keep the brilliant, skilled women on our investing teams engaged and rising through the ranks.

It’s not news that many mid-career women don’t get promoted, or that they switch companies, dial back, or leave jobs for reasons unrelated to their performance or potential. This fact is evidenced by the latest data in the 2022 Global Gender Gap Report from the World Economic Forum, which shows that while improvements have been made, disparities in economic participation and opportunity persist.² We know that bias and sexism exist and that family obligations and lower pay often drive women’s choices. Moreover, we also know that the pandemic has reinforced these barriers.³ Looking at our own industry, can we really say that it is significantly better in supporting career advancement for women in the face of these obstacles?

“We need to ensure women stay by addressing three key issues”

With more women entering the investment field, we now need to ensure they stay by addressing three key issues that hinder a more level playing field.

1. STRETCH ASSIGNMENTS. Women, and diverse talent in general, often are overlooked for “stretch” assignments that go beyond their job’s typical responsibilities. It may be that male

leaders still tend to favor co-workers who they have bonded with outside of the office. I’ve seen this repeatedly: An investment team leader turns to a senior analyst to captain a new fund, having built a rapport owing to a shared background, mutual affinity or other common interest, particularly sporting pursuits.

All rising employees deserve the chance to connect with—and impress—the decision-makers. Mentoring programs are critical, as are team-based talent development assignments. Such assignments should focus on core business activities and include employees from all different backgrounds and levels of experience. Investment management work performance is quantifiable and rising in the ranks must be about results, not favoritism. Every professional deserves the opportunity to be set up for success.

At MSIM, we built The Rising Investors Program (TRIP) to develop our talent. The program, which kicked off in February 2021, focuses on the retention of all the firm’s investment talent, especially our diverse talent. We target investors on teams that span asset classes and geographies, who have up to six years of work experience. In total, they represent nearly 300 professionals.

In the two years of TRIP being up and running, we have created organic opportunities for mentorship and a platform for all MSIM talent to shine in front of our company leadership. TRIP has also given them the opportunity to interact, building relationships and friendships with peers they would not typically collaborate with in the course of their daily activity.

2. PERFORMANCE REVIEWS. Second, and somewhat related to the first issue, we need extra eyes on performance assessments to ensure they are unbiased. I think of this as the “AND/BUT” dilemma. I’ve read many reviews that list a man’s positive contributions “AND” then suggest areas for improvement in an encouraging or expectant tone. A woman may be equally successful, “BUT” her review says there are areas of deficiency (minus the encouraging or expectant tone). That such gender bias can influence employee evaluations has been shown in a number of studies.⁴ Here at MSIM, all employees receive training in inclusive management/leadership and awareness of unconscious bias to learn what steps can be taken to help foster more objective review feedback.

How we present performance assessments matters. Evaluators need to avoid reflecting or reinforcing unconscious bias. We also believe that performance assessments must focus on the arc of a team member’s development, not just one good or bad year. Increasingly, the direction that several MSIM investment teams are beginning to take is to weight evaluations and compensation on a longer-term, multiyear basis.

¹ As of September 30, 2022.

² Global Gender Gap Report 2022, World Economic Forum, “Gender gaps in the workforce: an emerging crisis, pp. 6-7.

³ Source: McKinsey & Company, “Seven charts that show COVID-19’s impact on women’s employment,” March 2021.

⁴ Stanford Graduate School of Business, “The Language of Gender Bias in Performance Reviews,” April 28, 2021; Harvard Business Review, “How Gender Bias Corrupts Performance Reviews, and What to Do About It,” April 12, 2017.

Lastly, for senior investment professionals who are up for promotion, their active participation in TRIP is weighted as a key factor that fits within the culture contribution segment of the promotion process.

3. COMPENSATION. Last, and perhaps most importantly, we can no longer justify unequal compensation. Salary and bonus parameters must be consistent across job descriptions. The hard work of equalizing pay—even retroactively—cannot be ignored. When recruiting, we shouldn't base starting salaries only on a candidate's earnings from a previous job, as this may perpetuate existing bias. A past job title shouldn't influence how two people hired to do the same job get paid. Unfortunately, I still hear the argument being made in the industry that the man on the team needs to take care of his family and, so, should be given a raise, while a woman doing the same job isn't given the same consideration.

At Morgan Stanley, we remain focused on paying equitably. On an annual basis, we undertake a pay equity analysis conducted by a neutral, outside organization specializing in this area. Their multi-factor regression analysis includes, among other factors, experience, job title/level, location and talent rank. Findings are reported back to senior leadership and necessary action is taken if statistical discrepancies exist.

While statistical models are useful for identifying unconscious biases, we also recognize that compensation decisions are much more nuanced and require a degree of subjectivity. Performance reviews, competitive dynamics, talent retention and contribution to culture all have intangible elements that need to be considered. To avoid unintended bias across our talent pool, these aspects need to be taken into account as uniformly as practicable.

Staying Resolute

I discovered investment management shortly after receiving my MBA—a relatively late stage to find one's way into the industry. Yet, I have never looked back because I couldn't imagine a more compelling and fascinating career. I was fortunate to have mentors and sponsors, mostly all men, who helped set me up for growth and promotions because they saw potential in me. When I did feel treated differently due to my gender or ethnicity, I had the confidence to navigate these situations since I knew I had the support of a few outstanding and influential people. I take pride in sharing my passion with a whole new generation of young investors of all backgrounds.

**“If we get these pieces right,
we will better retain talent”**

I feel confident that if we get these pieces right, we will better retain talent—especially our diverse talent—who will perform well, thrive in their careers, and become the new generation of leaders to run our business. From a leadership perspective, it just makes sense that when you make a significant investment in an asset as important as your people, you want to make that work.

Addressing diversity issues is critical to truly transform our industry for the better over the long term. If we don't focus on these retention, compensation and promotion issues now, we not only risk losing the progress we have made so far but also miss the opportunity to advance our industry to the next level of performance, for ourselves and our clients.

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