

When Harry Fired Sally: Gender Discrimination among Financial Advisers

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Discrimination:

Unequal treatment of equals, or the equal treatment of unequals

This paper: Differences in tolerance for “missteps”

- Setting: financial advisers
- Observe measurable “missteps”: misconduct
- Examine how career punishments differ across genders
- Assess what economic arguments best explain these differences

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Discrimination in Separations

- Discrimination in the hiring stage
 - ▶ Person reduced to CV
 - ▶ Discriminate against a group b/c extrapolate about characteristics
 - ▶ Statistical discrimination
 - ▶ Audit and correspondence studies
- Discrimination in separations
 - ▶ Know the employee
 - ▶ 60%+ of lawsuits alleging discrimination concern discriminatory firings

Discrimination in Financial Services?

Financial services:

- Large industry: 6.1m employees, 8% of GDP
- Well compensated: median: \$71k vs. median HH inc \$52k
- Well educated

Sense that gender discrimination pervasive:

- 84% of women believe gender discrimination exists (eFinancial 2013)
- Equality and Human Rights Commission inquiry
- Congressional hearing on CFPB
- Ranks among the worst in terms of pay gaps

Male advisers: 3x higher misconduct

- 1/11 male advisers
- 1/33 female advisers w/ misconduct record

Females are punished more severely for misconduct

- 20% more likely to lose their jobs
- 30% less likely to find new employment
- Longer unemployment spells
- Less likely to be promoted

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Universe of financial advisers: BrokerCheck

- 2005-2015
- 650k active advisers, 1.2mm total advisers
 - ▶ 25% female
- Over 7mm adviser by year observations
- Observe
 - ▶ Employment history
 - ▶ Registrations, qualifications, etc.
 - ▶ Disclosures/Misconduct
 - ▶ Define misconduct as:
 - Customer disputes resolved in favor of customer, civil cases, regulatory proceedings, criminal cases
 - Employment separation over allegations
 - Not simple clerical errors

Customer Dispute - Settled

This type of disclosure event involves a consumer-initiated, investment-related complaint, arbitration proceeding or civil suit containing allegations of sale practice violations against the broker that resulted in a monetary settlement to the customer.

Disclosure 1 of 4

Reporting Source: Firm
Employing firm when activities occurred which led to the complaint: FIRST ALLIED SECURITIES, INC.

Allegations: CLAIMANTS ALLEGE THAT RR ENGAGED IN CHURNING AND UNAUTHORIZED TRADING IN THIS ACCOUNT FROM 2008 TO ACCOUNT CLOSE.

Product Type: Other: NO PRODUCT ALLEGED

Alleged Damages: \$100,000.00

Alleged Damages Amount Explanation (if amount not exact): CLAIMANTS SEEK BETWEEN \$100,000 AND \$499,999 IN COMPENSATORY DAMAGES.

Status: Settled

Status Date: 11/11/2014

Settlement Amount: \$75,000.00

Individual Contribution Amount: \$0.00

Does the incidence of misconduct vary across men and women?

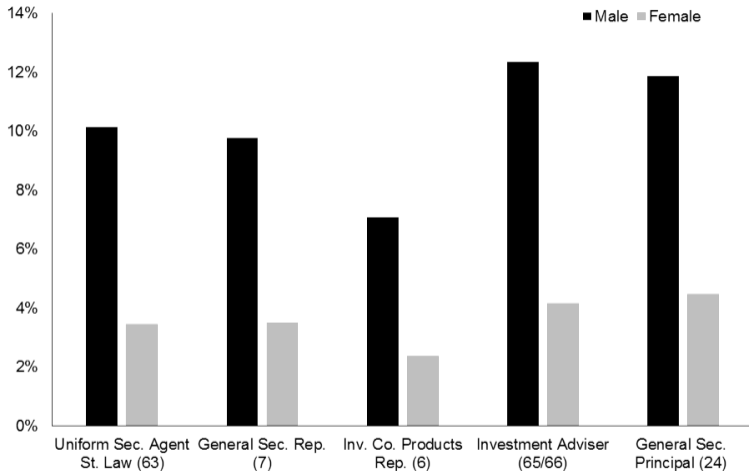
Misconduct and Gender

Misconduct	% with Record	
	Male	Female
Any Misconduct Disclosure	9.08%	3.00%
Types of Misconduct Disclosures:		
Customer Dispute - Settled	4.74%	1.35%
Employment Separation	1.21%	0.43%
Regulatory - Final	1.62%	0.35%
Criminal - Final Disposition	2.46%	0.98%
Customer Dispute - Award	0.75%	0.15%
Civil - Final	0.04%	0.01%

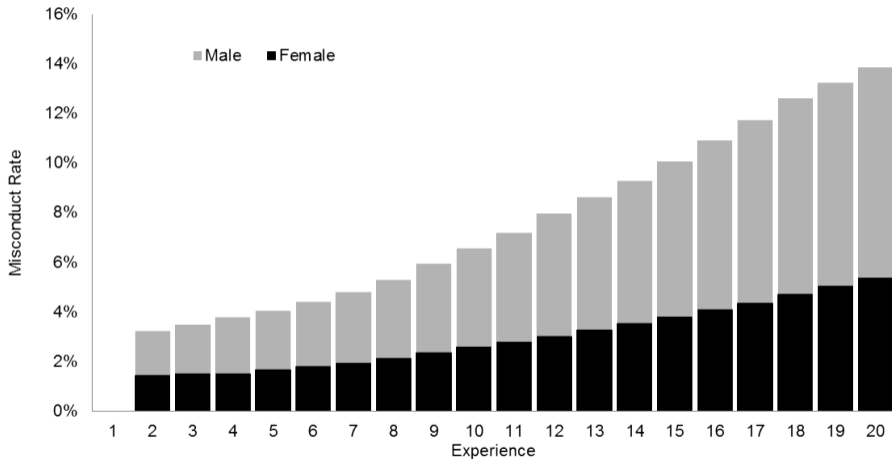
Misconduct and Gender

Misconduct	Annual Rate	
	Male	Female
Any Misconduct Disclosure	0.72%	0.29%
Types of Misconduct Disclosures:		
Customer Dispute - Settled	0.39%	0.13%
Employment Separation	0.20%	0.12%
Regulatory - Final	0.12%	0.04%
Criminal - Final Disposition	0.03%	0.01%
Customer Dispute - Award	0.02%	0.01%
Civil - Final	0.00%	0.00%

Misconduct across Qualifications



Misconduct and Experience



Does Punishment Vary Across Gender

Is misconduct tolerated more among men?

How do firms punish misconduct?

- Job separations

Labor market consequences of misconduct

- Industry exit
- New employment
- Duration of unemployment

Job Turnover in Market for Financial Advisers

Annual turnover

	No Misconduct	
	Male	Female
Remain with the Firm	81%	81%
Leave the Firm	19%	19%

Gender Differences in Job Turnover Following Misconduct

Firm Level Consequences

	No Misconduct		Misconduct	
	Male	Female	Male	Female
Remain with the Firm	81%	81%	54%	45%
Leave the Firm	19%	19%	46%	55%

- Same results when we examine advisers working for the same branch at the same time and control for observable differences (experience, qualifications, etc.)

Gender Differences in Job Turnover Following Misconduct

Industry Level Consequences

	No Misconduct	
	Male	Female
Remain with the Firm	81%	81%
Leave the Firm	19%	19%
Leave the Industry	46%	52%
Join a Different Firm	54%	48%

Gender Differences in Job Turnover Following Misconduct

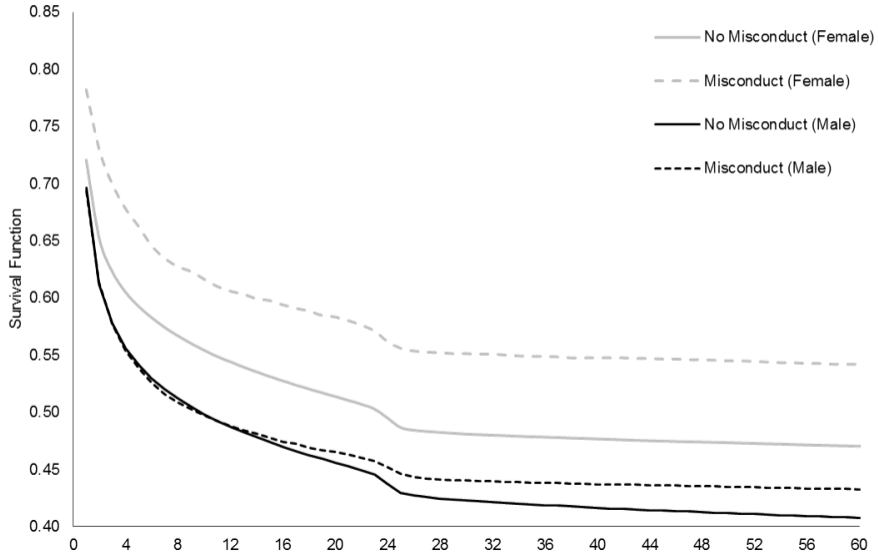
Industry Level Consequences

	No Misconduct		Misconduct	
	Male	Female	Male	Female
Remain with the Firm	81%	81%	54%	45%
Leave the Firm	19%	19%	46%	55%
Leave the Industry	46%	52%	53%	67%
Join a Different Firm	54%	48%	47%	33%

- Same results when we examine advisers working for the same branch at the same time and control for observable differences (experience, qualifications, etc.)

How long are advisers unemployed?

Out of the Industry Survival Function



Sources of Gender Differences

Firm heterogeneity in discipline

- Does discipline vary across firms?
- How does discipline vary with firm characteristics?

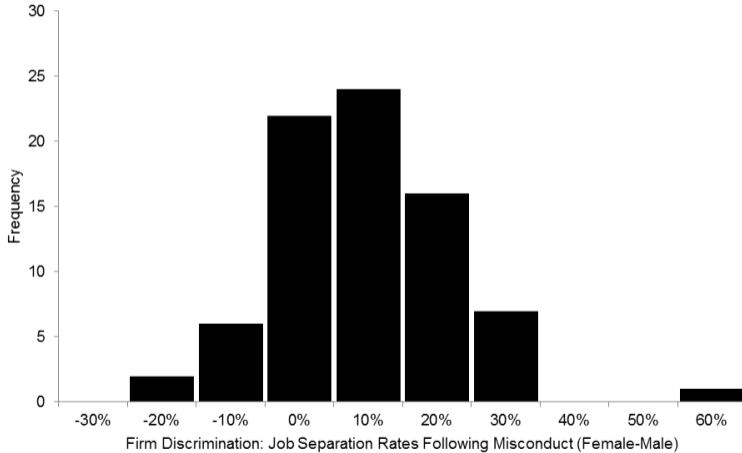
Examine how discipline varies at the firm level

$$\begin{aligned} Job_Sep_{ijlt} = & \alpha_{1j} Misc_{ijlt-1} + \alpha_{2j} Female_{ijlt} \\ & + \alpha_{3j} Female_{ijlt} \times Misc_{ijlt-1} + \varepsilon_{ijlt} \end{aligned}$$

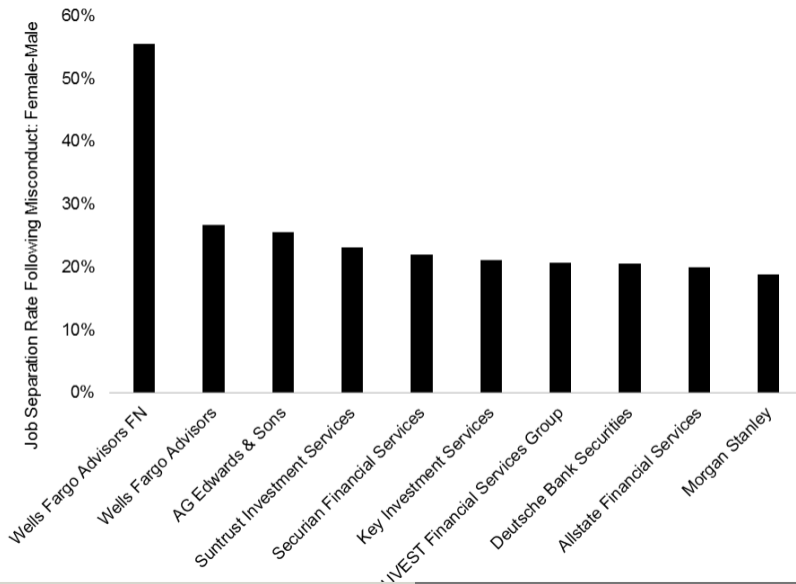
- Allow misconduct and gender coefficients to vary by firms
- α_{3j} reflects discrimination at firm j
- Include firm fixed effects and other controls
- Examine how firm level discrimination co-varies with other firm characteristics

Firm Differences

There is substantial heterogeneity in gender discrimination across firms



Firm Differences



- Substantial variation in discrimination at the firm level
- Find less discrimination in
 - ▶ Branches with more female branch managers
 - ▶ Branches with more female employees
 - ▶ Firms with more female executives
- Driven by “within group membership”

What is driving the observed discrimination?

Gender could simply be a proxy for adviser characteristics

Examine gender differences in:

- Repeat offenses/ recidivism
 - ▶ Recidivism is 40% higher among male advisers
- Misconduct severity
 - ▶ Women engage in misconduct that is 20% less costly
- Productivity
 - ▶ Control for qualifications, AUM, productivity

Also examine other minority groups

- Find similar results for African/Hispanic advisers
- Driven by with-in group membership

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Discussion: What Drives Discrimination

Women face harsher employment consequences at both the firm and industry level

Why?

- Statistical Discrimination: rational and non-prejudiced
 - ▶ Inconsistent with the data
 - ▶ Control for adviser productivity
 - ▶ Recidivism i.e. Becker (1957) and Arnold et al. (2017)
 - ▶ Discrimination is correlated with management composition and group membership
- Firm Bias
 - ▶ Taste-based discrimination
 - ▶ Miscalibrated beliefs
 - Firms with male management punish women more severely
 - Discrimination dissipates with firm tenure

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Conclusions

- Men are 3x more likely to receive misconduct disclosures
- Discrimination is about the unequal treatment of equals...
 - ▶ Women face more severe punishment for misconduct
 - ▶ 20% more likely to experience an employment separation
 - ▶ 30% less likely to find a new job
- Do not find much evidence supporting statistical discrimination
 - ▶ Women less likely to be repeat offenders
 - ▶ Women commit less costly misconduct
 - ▶ Do not find evidence that women are marginal employees
- Driven potentially by biased beliefs
- Potentially very costly
 - ▶ Loss of 5 months of employment
 - ▶ Career progression in a high skilled job, i.e. glass ceiling