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Becoming a Managing Director
A qualitative study of the promotion practices in Canadian banks at the Managing Director level

Roxana Barbulescu    |    Joanna Zapior

April 2016
Becoming a Managing Director: Research Project Synopsis

In this project we wanted to assess how certain ‘organizational artefacts’, such as promotion criteria, interact with the actual processes in organizations ― in this case, promotion to Managing Director / Director (‘MD / D’) in financial services, specifically the capital markets culture.

Our goal was to obtain insight into the structure of the promotion decision-making process in organizations. Specifically, we aimed to examine how professionals interpret the criteria used in promotion to senior roles, how they deal with the ambiguity in the criteria, and what strategies they adopt in their career planning given the nature of promotion criteria used in the industry. On a practical level, we aimed to obtain some very specific and actionable insights into how the promotion processes in the financial industry helps or hinders the advancement of women.

The study is based on in-depth open-ended interviews with male and female professionals in capital markets trading, sales and related functions. In addition to examining the differences, if any, in perceptions and strategies between men and women, we intended to observe what differences, if any, exist between senior professionals (already in the MD position but not in senior management roles) and those on the cusp of promotion.

The project was run by two principal investigators, Roxana Barbulescu and Joanna Zapior. Roxana is an associate professor in management and human resources at the HEC Paris. Her research focuses on career trajectories of managerial and professional workers, in particular the ways in which prior work experience, social networks, and professional identity facilitate or constrain job mobility. Joanna is a Managing Director at a financial services firm.

We are extremely grateful to our respondents for their candour and the stories they chose to share. Their participation has been invaluable in compiling this study. We are confident that the experiences as documented here will be useful not only to promoting managers but also to future MD candidates as they shape their careers in financial services.

We would also like to thank Joan Pinto for her expertise and work in developing the design and content architecture of this report.

All views expressed in this report reflect the personal observations and assessments of the respondents and the authors, rather than the institutions where they are currently employed. The quotes presented in the report are from our respondents.
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About our study
Promotion to Managing Director

Over a period of three months in the fall of 2015 we confidentially interviewed a number of finance professionals. Our goal was to see how the process of promotion to Managing Director is experienced by the individuals being promoted and how those aspiring to be promoted think about it. From here, this study aims to understand to what extent a gap may exist between how the process is intended (by the management of the firm) and how it plays out in practice. This gap may lead to unintended consequences as described by both our respondents and academic literature in the field.

Who were the respondents?

By place of work: capital markets professionals at Canada’s Big 5 banks, working across fixed income, currencies, commodities and equities groups.

By seniority: 60%/40% split between Managing Directors (‘MD’) who have experienced the promotion process and senior Directors (‘D’) who may be candidates for promotion to MD.

By gender: 60%/40% split between women and men.

Our study aims to answer two questions.

Question 1: What promotion criteria are used in the industry and what does the promotion process look like?

- We reconstructed the promotion process based on respondents’ knowledge and understanding of the criteria and practices.
- We synthesized respondents’ observations and assessments regarding the promotion process.

Question 2: What does research have to say about our findings?

We identify seven themes in our data that have been addressed by existing academic literature, and critically examine how the literature explains the observations made by our respondents as well as our own assessment of the data we have gathered.

- Are firms getting the people with the necessary skills at the top?
- Are firms getting the right trade-off in terms of flexibility and cost of their talent management systems?
- What are the dimensions of career progression for the individual contributor?
- How does this context shape the decision making process?
- What intrinsic features of this context pose particular challenges for women?
- Are there consequences of the institutional pressure towards diversity?
- Do macro-economic conditions matter?
**Key findings**

**What we learnt and proposed next steps**

It is our hope that our investigation can generate the kinds of ideas that, when put in action by the management of the firm, will lead to a narrowing of the gap between how the process is intended and how it is played out in practice that we observed in this study.

**Next steps**

First, we would like to complement the observations of our respondents with a corporate perspective from both senior management and HR. A two-sided data set would broaden the understanding of how the promotion methods as practiced meet objectives, and would give us further insight into the specific elements that are of most importance to the firms.

Second, we would like to apply the qualitative insights to design a quantitative study of managerial skills and accession to leadership in the industry. This study would extend our qualitative findings in actionable directions.

The first thing we learned was that the process at it exists today works in many ways. Yet it is also seen by most respondents as evolving. Respondents concurred that most of the change happening in their firms is proactive and thoughtful, and that the will is there to keep pushing forward with changes in productive directions.

Second, we understood that there is great interest in deciphering which areas are most ripe for constructive change. We were told repeatedly that our outsider observations and knowledge can offer insights that are harder for insiders to grasp. Thus, we decided to focus our analysis on the aspects of the findings that may be most helpful for those with a stake in improving the promotion process as it exists today. Our analyses in this report focus on understanding to what extent there may be a gap between how the promotion process is intended (by the management of the firm) and how it is played out in practice, in ways that may create the conditions for unintended consequences. Taking this perspective, the findings and our analysis suggest three areas in which unintended consequences emerge that may not necessarily serve the interests of the firms and of their stakeholders, now or in the near future.

- Insufficient emphasis on the managerial skills and abilities among those ascending the ladder to leadership positions (i.e., MD).
- The persistence of a (costly) opaque and political component either the beginning and/or the end of the decision-making process.
- Diversity efforts undermined by perceived lack of transparency, accountability and managerial support in the promotion system.

These areas are of course inter-related, and it is our opinion that progress in one or two of them would trigger a virtuous cycle of amelioration in the other areas as well. For instance, a concerted effort to address the first area (the managerial skills of those considered for leadership positions) would very likely also trigger positive reverberations towards the other two areas of concern.
Why it matters

Understanding unintended consequences

If you believe that diversity of thought is necessary for banks to survive the new competition, management actions are incongruent with what the vision needs to be. They talk about diversity of thought but it does not really exist, it’s diversity within the comfortable norm of what diversity is, not real diversity. They want to run a marathon but to exercise they will go out and walk. That’s better than sitting and watching TV but does not get you to run the marathon. The more dissimilar you are, the harder it is to connect. By definition it’s a barrier. This goes for women too. Both sides must find it comfortable.”

To our knowledge, this is the first qualitative data set about the promotion practices employed by Canadian banks. Even beyond Canada, promotion processes in the financial services sector remain under-researched relative to other professional services (law, accounting or consulting). But obtaining and organizing the information about promotion practices in the industry is only the first step towards gaining an understanding of the dynamics of the promotion process.

By framing the observations from our field study in the context of existing academic literature we help explain the observed behaviours and increase the understanding of both intended and unintended consequences of the practices reported by respondents.

- We are particularly interested in gaining insight into whether the structure of the promotion process is a tailwind or a headwind for diversity initiatives in the financial sector – not just gender diversity but more generally thought diversity, which may be driven by gender, ethnicity or educational background.

- If legacy organizational artefacts – ‘how things have always been done’ – persist in the area of promotion and talent management, they may be reducing the effectiveness of diversity policies and specific diversity initiatives in ways that are difficult to detect and therefore to remedy.

- Our findings contribute to increasing the transparency around senior-level promotion practices across the industry. Transparency is believed to be one of the key success factors in increasing diversity at senior levels of professional services firms.

Finally, we hope this study will be a useful tool for future promotion candidates as they shape their careers in financial services.
The promotion process
Our respondents’ perspective

Respondents described a spectrum of promotion practices, which can be defined by a) how transparent (opaque) the promotion criteria appear to them, and b) how structured (unstructured) the promotion process itself and the decision-making appear. Using this framework, in this part of our study we reconstruct the promotion process across the industry.

From the unstructured and opaque to the structured and transparent

The structured / unstructured dynamic can, in our opinion, be mapped to the opaque / transparent dimension.

It is our observation that the unstructured process, which appears traditional in the industry, is rather mysterious and opaque. The newer, structured process has the potential to become transparent, though at the time when we conducted the study the level of understanding of the structured process was mixed and the process itself appeared in a formative stage (‘culture in the making’).

Using the two dimensions, transparency and structure, we detected four distinct variants of the promotion system among the banks with which our respondents were familiar (Figure 1).

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The structure helps avoid an impression of randomness in the promotion process where you get promoted and you still don’t really know what it takes to become an MD. But the structure still depends on who is chairing the process in a given year.”

Transparency of the process is important so that people feel that they got a chance and are not going to be sideswiped by something they were not aware of. It helps to manage expectations and avoid negative impacts on productivity or even losing people whose expectations are not managed properly.”
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A closer look at the framework of the process

Promotion criteria
Whether transparent or presumed, the promotion criteria as understood by our respondents were relatively consistent across the structured-unstructured spectrum, and can be organized into three groups: i) results, ii) experience and tenure, and iii) leadership and cultural fit (Figure 2 top panel). This consistency suggests that there is a concept of what an MD should represent that is shared across the industry.

The consistency of the understanding among our respondents of what the criteria are contrasts with their belief that how the criteria are interpreted is neither systematic nor objective. This leads to differences in strategies that are used to demonstrate that one meets the criteria.

Unstructured process
The perception of respondents is that the traditional unstructured promotion process remains fully the domain of senior business leaders of the capital markets or investment banking organizations (bottom left panel of Figure 2).

- The candidate is often unaware that they are being formally considered for promotion.

Promotion criteria may be implicit or explicit, but either way it appears that promotion is granted on broad merit and reputation that the candidate has built over time with his or her manager and senior business leaders. That is a logical conclusion on the part of respondents given that even those familiar with explicit criteria do not know how the business leaders apply them.

Structured process
The respondents who experienced the structured process describe a formulaic committee-based process. The MD panel membership is broader than merely senior business leaders and includes lower-level MDs (team leaders). The committee appears to have significant decision-making powers, with no evidence among our respondents that the right of veto by senior management on the panel's decisions is being exercised (bottom right panel of Figure 2).

- The candidate actively participates in a large portion of the process.
- Upon nomination, both the criteria and the process are made transparent to the candidate.
- Respondents observe that performance during interviews with the panel members appears to be an important factor of a successful promotion, in addition to the reputation the candidate has built within the firm and to broad merit. Explicit use of 360s further 'democratizes' the feedback used in the evaluation of candidates.
- The respondents familiar with the structured process mentioned a more opaque component of the process, the 'pipeline'. It refers to a potentially multi-year period before the candidate is formally nominated for the review by the MD panel. This portion of the process appears to have a gate-keeping function, seems fully in control of the senior business leaders (with potentially some input from direct managers), and may in fact be similar in character to the unstructured process.

For me, the hallmark of an MD is the ability to frame and identify a problem in a very clear way, and more importantly come up with ways of resolving the problem in an optimal way. Efficient and effective not just for themselves but for the broader organization, harnessing all of the resources they would need. Someone more junior may provide a solution but it’s less optimal, takes longer or uses more resources, or is not as well framed. But those are not the official criteria – the official criteria are more based on relationship building and having a network, in contrast to technical expertise that drives results.”
Figure 2. Promotion criteria, the process, and the engagement of the candidate

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>Non-Transparent</th>
<th>Transparent</th>
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<tbody>
<tr>
<td>1</td>
<td>Results, typically financial – individual contribution to the team in terms of production and P&amp;L; instrumental to not just one’s team but also other business groups</td>
<td>Implicit, not available in writing</td>
</tr>
<tr>
<td>2</td>
<td>Tenure and experience, being recognized for one’s knowledge and capabilities, and even innovation, being influential and well networked – representing the bank externally</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Leadership attributes and cultural fit – articulated differently depending on each bank’s style (no respondent listed all of these items together as used by his or her bank)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▸ Ability to evolve the business, be a strategic driver, develop the franchise</td>
<td>▸ Team builder, supports collaboration</td>
</tr>
<tr>
<td></td>
<td>▸ Focus on clients and relationship management</td>
<td>▸ Some form of community involvement</td>
</tr>
<tr>
<td></td>
<td>▸ Human capital developer</td>
<td>▸ Attention to diversity</td>
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<tr>
<td></td>
<td>▸ Ability to balance reputational risk vs. commercial impacts – governance</td>
<td></td>
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<tr>
<th>PROCESS &amp; DECISION MAKING</th>
<th>Unstructured</th>
<th>Structured</th>
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<tbody>
<tr>
<td>Decision of senior business leaders. Specifics of the process are not known unless a participant (senior leader or nominating manager) volunteers the information. The decision likely involves a meeting of business leaders, the manager’s presentation of the candidate, and a discussion of merit. Past performance reviews and any other available HR documentation are also used by the decision makers.</td>
<td>Generally not directly involved – advised when promoted. Depending on the manager, may be informed of being considered; may assist the manager in preparing the candidate’s presentation package.</td>
<td>Decision of an MD panel appointed by senior management; senior ‘veto’ exists but panel decisions appear to be respected. The process involves formal interviews with the panel. The candidate is encouraged to arrange pre-interview meetings with panel members, and is assigned one of them as mentor. The candidate’s manager also presents him or her to the panel. Additional documentation includes past performance reviews and 360s.</td>
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</tbody>
</table>

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<tr>
<th>CANDIDATE</th>
<th>Unstructured</th>
<th>Structured</th>
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Authors’ observation

Broader access to information about the process in the structured environment is evidenced by the richness of observations the respondents provided regarding the structured process relative to the unstructured environment.

- In addition to the official information channels available to the candidates as part of the promotion process, information about what the structured process is like is available from several sources: past and current members of the panel, MDs who have been through the process, and members of the HR team who facilitate it.

- These sources are more readily accessible to prospective MDs and even lower-title employees who plan their careers than the current or past senior business leaders who in the unstructured process are largely the keepers of the knowledge about the promotion process.
Respondents’ observations and assessments of promotion criteria and the promotion process

There is a wealth of experience among our respondents. Most actively manage their careers, whether within one bank or by changing banks. Many participate in recruitment and other human capital development initiatives, and some have participated in promotions to MD or D and/or manage teams. The open-ended nature of our questions was conducive to sharing insights, and the respondents did so generously.

60% of our respondents are Managing Directors and have experienced first-hand the promotion process. 40% are Directors who may be candidates for promotion to MD. Collectively they have, give or take, three hundred years of experience in the industry.

Four opinions were broadly shared among the respondents. We discuss them below, with a complete presentation of the respondents’ observations and assessments of the promotion criteria, the process itself, and the decision making located in the Appendix.

1. Promotion criteria shape how individuals build their accomplishments.
2. Contextual factors influence how overall effective the promotion process is.
3. Each system promotes certain individual behaviours.
4. And there are also aggregate consequences at the organizational level.

Promotion criteria shape how individuals build their accomplishments

Objective versus subjective criteria
The more objective the criteria, the easier it is to demonstrate one meets them — for example, the P&L. Where the P&L is not high enough (e.g., the money market business for an MD) or not directly associated with the role (e.g., quant, structuring, some forms of research, infrastructure), the candidates focus on and compensate with some of the following strategies.

- Better visibility to one’s manager and also other senior managers.
- Evidence of external visibility — important clients mention their name to senior managers, or their name is in the media.
- Ability to articulate and quantify one’s contribution to other groups’ P&L.
- Image management — related to visibility and to credibility that one builds through prior interactions. But it’s also about reputations: “someone who has never really had a lot of interaction with me will have an opinion because of what other people are saying.”

Relationships
Personal interactions and a broad base of support are very important.

In the unstructured process, absent an existing working, extracurricular, or social relationship with the decision makers, one has to seek out such opportunities, including the famous elevator pitch. One also needs to develop own brand beyond one’s job — networking with senior management, whether on a project, through volunteering, or charitable effort.

In the structured process, the same applies to contact with senior management on the assumption that the hidden power structure is still an important part of the process. In addition, ideally one also develops exposure to the panel members (tougher to ‘engineer’ given the rotation, even though the pool is generally limited to certain senior MDs). Then there is the formal interview and the informal meetings.

People don’t want to talk about the political side of the process, not to their mentees, because it’s a bit discouraging to think about the politics vs. pure merit system. Instead, as a proxy for politics people talk about visibility — which is good advice anyway.”
The process is competitive
Whether because the written criteria convey this message or because the information informally gathered indicates it, there is an agreement that merely meeting the expectations does not mean one is well positioned for a promotion to MD.

The written criteria are seen as the minimum requirement; it is understood that the process is competitive and more candidates are considered / nominated than the actual number of ‘spots’ each year (which is thought of as a hard cap). Outperformance in the annual evaluations appears to be a necessary but not a sufficient condition.

Annual performance is assessed with quantified metrics but they are seen as subjective and distorted at the individual level by bell-curve fitting.

Written promotion guidelines help senior managers develop the culture and make it less opaque.

The role of one’s direct manager
One’s direct manager is seen as a key success factor in the entire promotion process. This is universal along the spectrum from unstructured to structured. Several respondents suggested that one must consistently communicate one’s aspirations to one’s manager and other senior managers, if possible. This works as both good communication and the ‘squeaky wheel syndrome’. Women in particular should always focus on initiating this conversation.

Contextual factors influence the overall effectiveness of the promotion process

Transparency of criteria
As one respondent stated, “written criteria help everybody: for senior managers, they help frame the conversation about what the candidate needs to improve to be seen as a senior leader and good communicator; they take the ambiguity and guessing work out for the candidate”. Written guidelines are helpful in mitigating some of the hidden biases.

The role of the direct manager is even more important where formal career planning — “a framework within which you know what you are to achieve and what your goals are, including possible transfers, with something at the backend to continue you along, and someone you could actually sit down with and map it out” — is rare. For most people, career planning appears to be their own initiative, supported at times by mentors or sponsors, and often opportunistic more than deliberate.

Any Director who wants to make MD is sufficiently savvy and intelligent to understand the hidden power hierarchies within a firm.”

My key success factor was a manager who was a good operator, political, with a lot of political capital in the firm, doing the quid pro quo, with a promotion track record (which means that she was also doing a lot of horse trading). Not a mercenary, more of a chess player and successful at getting things done for people. Always had a strategy, was always playing the long game and willing to explain what she was doing.”

If your aspiration is to pursue leadership, build relationships early, internal and external. Technical expertise gets you to a certain point but that’s not enough for the second level MD. What got you to your current situation is irrelevant to get you to the next situation.”
Knowledge of the process
Knowledge of the process is seen as a key success factor, yet access to it is uneven and depends on how well the person is connected. Knowledge of the structured process is accessible at the point of nomination but the pre-nomination process is equally obscure as in the unstructured context.

Individual behaviors that the system promotes
Improved communication and feedback
The structured process improves communication and feedback, and develops the manager — but is more demanding on the manager as at a minimum it forces him or her to learn to provide feedback and suggest ideas for improvement.

The use of 360s is seen as positive. 360s provide more diversified feedback (even as it is not clear if a likeable individual will get a better result as 360 respondents know that this person is going for promotion and decide to support the likeable candidate — this may be a matter of timing the 360s around the promotion process; for example, in the global banks 360s appear to be done annually for everyone rather than just at the time of promotion).

Sponsorship and advocacy
The unstructured system is more prone to be perceived as political, where a sponsor or advocate is critical, and where the visibility of the candidate may be overemphasized. The ‘pipeline’ system that precedes the nomination in the structured system may suffer from the same.

For the formal process, you need to be slated first, and your manager has to put you up. You have to actively pursue it to get into the pipeline, especially if you are not in an ultra high-margin super-lucrative asset class or your business has cost pressures or is top heavy."

The structured process may promote ‘check the box’ attitudes among both candidates and the panel, especially with respect to the community and volunteering activities. As such, it is easier to game. Yet other respondents argue that the approach stimulates behaviours expected by management, and that the gaming behaviours are transparent.

With the focus on last-minute campaigning in the structured system, the process promotes the individuals who find self-campaigning easier.

Aggregate consequences for the organization
Structured versus unstructured process
The structured process results in few surprises. Some respondents noted a positive personal development impact: “it’s a lot of work but it makes you to really understand what you are doing, and helps you better understand what the bank is doing.”

While increased transparency in the structured process is generally seen as a positive, one of the costs is the need to communicate a negative decision (which may be demotivating and even lead to a departure of a strong though unpromotable employee). In the unstructured system the need to communicate a negative decision does not arise.

The formal, structured process is seen by respondents as more complex and involved compared to the informal process. There is more paperwork and interviews. The manager’s involvement is seen as more intense; at times in addition to the initial presentation of the candidate to the panel the manager needs to step in and educate the panel as candidates are sometimes rejected for promotions because the panel does not understand what they do.

In an unstructured system the criteria probably weren’t as clearly defined but the leaders were observing people’s careers and knew a lot about their employees. They were not trying to get to know promotion candidates at the time of promotion — in contrast to the committee process.”
The structured process has not entirely succeeded in reducing the dependency on the P&L — individuals from groups without the P&L, smaller areas, or narrowly specialized areas have a tougher time in front of the panel.

The structured process works well when there are clear opportunities to move up. Promotion becomes a black box when such opportunities are limited (because of lack of growth or increasing specialization).

According to some respondents, the unstructured process is perceived to have tighter control of who is promoted along the hierarchy.

The role of HR is seen as someone who runs the process. Someone from HR is on the panel and part of the conversation but they are not a loud voice, more of a supporting role, prompt with other things to think about. Some respondents suggested that HR is aligned with senior management and executes on the top-down vision (the overall number of MDs, process, flight risk management, etc.) rather than with the individual with regard to their development strategy. Although we did not include the perspective of the HR staff at this stage of our project, we acknowledge that this would be very desirable to take into account in subsequent stages.

The Appendix presents in a greater detail respondents’ observations and assessments. It is organized along the following topics.

**Criteria**
- What promotion criteria are used?
- How are the criteria weighted?
- Are there any unspoken criteria?
- How does one know what the promotion criteria are?
- Respondents’ assessment: How the promotion criteria are perceived

**Process**
- What are the steps in the promotion process?
- Who initiates the promotion process?
- How to learn about the promotion process?
- What are the timelines of promotion process?
- Who makes the decision?
- How is the decision announced?
- Respondents’ assessment: How the promotion process is perceived
What research has to say

Intended and unintended consequences

The topic of promotion to MD in financial services may itself be under-researched, but our respondents brought to light observations that are familiar to researchers in other contexts. Four themes that emerge are about the firms themselves — what are the firms getting given the format of the promotion process they use? Three themes touch upon diversity, one directly in terms of consequences for women, and two more broadly with regard to the consequences of institutional pressure and macro-economic conditions on diversity.

Consequences for the firm

Are firms getting the people with the necessary skills at the top?

It is unclear whether the promotion to MD represents an increase in title recognizing past accomplishments, or accession to a new position with increased responsibilities, i.e., carrying the brand and staff development.

What research says

- If the promotion is to recognize past accomplishments, short-term quantitative performance measures are highly informative. But if the promotion is meant to screen people into new responsibilities, long-term performance measures and a mix of quantitative and qualitative performance measures are more indicative.

The purpose of the promotion in the overall staffing system should inform how and what kind of prior performance data is used for promotion decisions.

Authors’ conclusions

Non-financial performance measures (e.g., levels of employee turnover, skills and satisfaction of employees working with or under the individual considered for promotion) are informative about the ability to take on the added responsibility of a more senior management role. But the assessment on such measures is analytically complex. This high level of complexity may create a temptation to resort to shortcuts and over-reliance on simplistic but quantifiable metrics, or on ‘reputation’.

The process is highly subjective, potentially subjectively unfair, but perhaps you need it to be that way because ultimately it’s about relationships. If you cannot integrate with the current management team, whatever it is, then you cannot function at that senior level in that dynamic, ad hoc, loosely coupled team. You are pulling the merits but you don’t fit. It’s unfortunate that the definition of fit is so narrow.”
Are firms getting the right trade-off in terms of flexibility and cost of their talent management systems?

Even in the structured process, a significant portion of the process remains opaque to the participants, especially at the very beginning (the calibration and creation of the pipeline) and the very end. This allows the firm to better navigate between cost control and growth, as needed.

What research says

- Employment systems where promotions tend to recognize an increase in responsibilities (scope and/or magnitude) undertaken by a worker are effective for motivating and retaining workers.

- The downsides of such systems are high cost of promotions, pressure for growth at risk of losing star employees, and highly political annual processes.

Authors’ conclusion

If cost control becomes vital or political conflict too difficult to manage, implementing more clearly defined roles and responsibilities for each job and different staffing systems for different kinds of jobs may relieve the pressure on the system.

What are the dimensions of career progression for the individual contributor?

Increasing specialization earlier in the career gives way to demands for breadth at MD point. The up-or-out process favors an individualistic, sink-or-swim culture. Relationship building, mentorship and sponsorship are key yet are also largely informal.

What research says

- ‘Up or out’ is characteristic of human resources practices in professional services firms. It is usually implemented as part of a suite of practices including similar career paths for all professionals, relatively flat hierarchical structure, homogenous set of skills and experiences across members, and high reliance on internal labor markets for promotions to senior positions.

- Yet the extent to which these practices are flexible is changing. More innovative firms encourage the co-existence of traditional and more novel practices.

Authors’ conclusion

Different practice areas may use ‘up or out’ and alternative roles in different proportions in their internal labor market structures. This would allow the areas autonomy to pursue potentially different strategic objectives.
How does this context shape the decision-making process?

Expertise is often measured indirectly, via recognition and acknowledgement from others.

What research says
- Performance in jobs similar to those described by our respondents is multi-dimensional and intrinsically difficult to evaluate, making promotion decisions cognitively demanding tasks. The simple decision-making rule on such occasions is to revert to ‘fit’, or perceived similarity with incumbents, because “competence is hard to judge, so we rely upon familiarity”.
- Better decisions are possible by eschewing ‘fit’ in favor of a more analytically complex decision making process.

Authors’ conclusion
Holding decision makers accountable for the promotion decisions motivates them to reason in more analytically complex ways and this helps avoid promotion on ‘fit’.

Consequences for diversity

What intrinsic features of this context pose particular challenges for women?

Culture is generally seen as non-inclusive (meaning that it is hard to fit in if you are different), opaque (especially in the unstructured process), and relationship-based. In addition, communication about career aspirations and subordinate coaching and development are not common managerial practices.

What research says
- Women are disadvantaged when there is ambiguity about the bargaining range and the appropriate standards for negotiated agreement, because they tend to assume that the information they have is necessary and sufficient, and to think in integrative (value-creating) rather than competitive (value-sharing) terms.

Authors’ conclusion
To increase retention of women, managers need to lay out expectations clearly, fully and continuously, explain the formal as well as informal rules of the game, and learn to be attuned to how women frame their achievements in integrative, rather than competitive, ways.

Are there consequences of the institutional pressure towards diversity?

More explicit effort is placed on making sure that the promotion process includes women in decision-making. At the same time, formal mentorship processes may not reach their objectives if they separate women from the informal sponsorship networks from which men derive their support.

What research says
- Internal oversight from personnel and legal departments, and pressure from governmental legislation and regulatory bodies have an influence on progress towards gender parity.
- At the same time, industry factors mitigate the effects of institutional pressures. The only factor that reverses the gender gap in rewards and performance evaluations is higher representation of female executives at the industry level.

Authors’ conclusion
An interesting experiment is underway at McKinsey, which has included diversity of leadership styles in promotion criteria. Among next steps, it hopes to
refine the ‘up or out’ promotion system to allow people more flexibility to stay in roles when they need that flexibility (at different stages of their lives), and create mechanisms for management to ‘have skin in the game’.

While it is understandable that social change in the organizational sense does not happen overnight, the banking industry will continue to sabotage its own effort until it reaches a meaningful female executive representation in core functions (in this industry, typically understood as client-facing as opposed to ‘infrastructure’ — business management, finance, technology, human resources or even risk management).

Do macro-economic conditions matter?

Mobility potential (both perceived and real) remains important for respondents looking to build leverage for bargaining with their employer. Yet macro overlay makes it more challenging for organizations to make advancement opportunities available.

What research says

- In the context of relative bargaining power of worker vs. employer, in order to retain high quality workers firms have to offer increased compensation or promotion or both.

- Women’s gains are often lost in difficult economic circumstances because diversity remains a ‘luxury’ priority.

Authors’ conclusion

The macro conditions may take some of the bargaining advantage away from the individual in favor of the firms; firms may find it easier to offer increased compensation or promotion, but not necessarily both.

Progress made on diversity can be easily lost after the firm goes through unfavorable economic conditions if specific attention is not sustained.

The Appendix presents in a greater detail our analysis of existing research. It is organized along the following topics.

Consequences the firm

- Are firms getting the people with the necessary skills at the top?
- Are firms getting the right trade-off in terms of flexibility and cost of their talent management systems?
- Dimensions of career progression for the individual contributor
- How does this context shape the decision-making process?

Consequences for diversity

- What intrinsic features of this context pose particular challenges for women?
- Are there consequences of the institutional pressure towards diversity?
- Do macro-economic conditions matter?

One can get visibility either through sheer P&L (for marketers to become stars, homerun trades with outsized profits or performance are better than high margin, extremely lucrative small trades) or through the extracurriculars. To compete for promotion with other candidates from big desks one may have to change desks to also be able to work on such deals — and managers should be supportive.
Appendices

Becoming a Managing Director
A qualitative study of the promotion practices in Canadian banks at the Managing Director level

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The process since 2009
Our respondents’ perspective

“Until 2009 there was no formal process for promotion — just a tap on the shoulder from your boss. Then there was a sense of title inflation in the firm. There was a big bulge at the more senior levels and the firm tried to make it more of a pyramid and introduced a more rigorous promotion process.”

Since the financial crisis...

Respondents reported witnessing an evolution of the promotion process over time and indicated that changes coincided with the 2008-09 financial crisis, without suggesting that it was a direct cause.

- Until 2009, the promotion process to both D and MD appears mostly unstructured — more like a tap on the shoulder from your boss.

- Around 2009, one bank introduced a structured process accompanied by written promotion criteria.

- Since 2009 (and in some cases in the last couple of years), other banks articulated promotion criteria in writing.
  - Some post the promotion criteria on a website, which is broadly (and anonymously) available to employees.
  - Other banks make the criteria available ‘on an as-needed basis’ or upon request, and it may be at the manager’s discretion.

- Many of our respondents have observed a tightening of the promotion rules since the financial crisis. For example:
  - There is a perception that the scrutiny at the MD level is much higher than one level below, whether it’s in the structured or unstructured environment, and that it’s ‘tougher and tougher’ every year to become an MD.
  - The structured environment has been characterized as more rigorous than the unstructured, both at the MD and D levels.
  - There is more rigour around respecting the time intervals between successive promotions (2-3 years), with successive promotions year after year being eliminated or reduced.
  - Some respondents noted that there had been an inflation of titles that resulted in a top-heavy structure with a bulge at the D level, and a more rigorous process is working to revert overtime to a more pyramid-like structure (but we caution that the title inflation may not be an industry-wide syndrome but rather something specific to one or two banks).
Promotion to MD in the context of promotions overall

Our respondents provided a broader context on the promotion process across the title hierarchy.

- Promotion to associate is rather mechanical (2–3 years on the job), and consistent with the ‘up or out’ principle.

- In the less structured environments, the promotion to the titles above associate is approved by the group head (head of the trading floor or investment banking), after having been prompted by HR and / or initiated by the candidate’s manager, and is to a large degree dictated by the passage of time.

- On the structured side, the above process may also be applied to the promotion to the title immediately above associate, with approval either by group head or senior management committee (of the trading floor or investment banking), while promotion to D (the title just below MD) is reminiscent of the MD process (promotion committee, formal criteria, need to prepare a self-presentation package and manager presentation package, pre-interview meetings with committee members (a form of coaching), interviews (both the candidate and promoting manager), and a possibility of feedback in case of a failure to be promoted.

Compared to a global bank experience...

Those of our respondents who had worked at large global banks noted the use of a structured model there: written self-pitch, involvement of a mentor and/or manager, interviews, a committee, a commercial element that balanced out individual performance with a perception of the seat — people failed because they were not in an MD seat, did not make enough money.

The structured process seen in Canada is somewhat comparable to that our respondents experienced at large global banks. But they noted an interesting difference: in the global bank HR processes are more documented.

- For some global banks the year-end evaluation process appears more involved than in Canada, and includes 360s for everybody every year (with 6-10 people who were not a direct manager or a direct report).

- More documentation is available outside the performance evaluation and promotion processes per se.

- At each title one has a roadmap that spells out what one should achieve to be eligible for promotion, though some of the items were loose and open to interpretation (e.g., demonstrate the values of the firm) and consequently seen as sort of a box you check.

- There is also a more formal due diligence process at the committee level (e.g., collection of references by one committee member) that perhaps serves to overcome the unequal knowledge of specializations across committee members.
Criteria
What promotion criteria are used?

Whether in an environment with written or with unwritten promotion criteria, the criteria our respondents mentioned can be grouped into three areas: 1) demonstrated results, 2) perceived capabilities, and 3) leadership attributes and ‘cultural fit’. Respondents’ observations regarding the criteria used in the process of promotion to MD are accompanied by examples of strategies and tactics they reported as being used by industry participants.

Results, typically financial

- Individual contribution to the team in terms of production and P&L — Instrumental to not just one’s team but also other business groups.
- Most directly measurable but even that has limitations (e.g., sales credits are less tangible than IB revenue).

How to overcome a lack of P&L or insufficient P&L?

Respondents offered four areas in which to strategize.

- Be integral to some large, high profile transactions.
- Compensate by demonstrating scope, influence, and visibility — perhaps in the media or external professional circles.
- To effectively compete for promotion with other candidates from big desks one may have to change desks to also be able to work on prominent deals — managers should be supportive of such moves.
- In the structured process, prepare well, do the research about what panel members may be looking for.

Capabilities

- Experience, possibly related to tenure.
- Excellence: being recognized for one’s knowledge, abilities, or innovation.
- Scope — being influential and well networked, representing the bank externally.

How to demonstrate experience and excellence?

Theoretically it should be reasonably easy to demonstrate both by quantitative and qualitative achievements but some of our respondents observed that the way the criteria documents talk about this requirement is in terms of ‘being recognized’ as having mastery in the subject matter.
- ‘Being acknowledged’ has a subjective bias (the measure references somebody else) and may handicap the narrowly specialized candidates if people around them don’t know the candidate’s domain. “As long as you look like you are smarter than them in that area, you are deemed to
be so. More of an optics campaign than true measure”.

How to demonstrate scope?

Similarly to the criteria of experience and excellence, respondents underscored the need to ‘be recognized’.

- “Can management or the panel see the person in a larger job, with more responsibility? Would they be comfortable putting the candidate in front of their clients?”

Does tenure alone matter?

Standalone tenure is generally not seen as an important criterion.

- It is explicitly considered for lower titles but not for the MD, though respondents still mentioned it, particularly in the context where the criteria are not transparent.

- The concept of tenure may be implicitly included in the expertise and scope criteria in the transparent system.

Articulated differently, depending on the bank’s style, for example:

- Ability to evolve the business, be a strategic driver, develop the franchise.
- Team builder and supporter of collaboration among teams.
- Human capital developer.
- Focus on clients and relationship management.
- Ability to balance reputational risk vs. commercial impact – governance.
- Some form of community involvement.
- Attention to diversity.

How to demonstrate leadership?

Here, the respondents offered a wide range of ideas, from high-level conceptual to very specific. One respondent noted that while “the ability to evolve the business beyond demonstrated results or experience is unprovable, one’s track record is a predictor of such capabilities”. Ideas include:

- Adherence to corporate culture and ethics.
- Confidence in taking things forward and managing things through, managing difficult situations, pulling together issues across groups, and doing that with respect, making good strategic decisions.
- The ability to show that one is going to be more valuable in a higher position in terms of doing more business for the bank.
- The ability to demonstrate knowledge about the business of the bank.
and the industry, and the direction in which it’s going.

**How to demonstrate one adheres to corporate culture?**

This is not deemed easy as it’s a vague and subjective criterion.

– It’s something reputational, a longer-term track record.

– Some respondents focused on developing that track record with one’s manager and counted on the manager’s support in the process. Others focused on the ‘party line’ — making sure that they are heard saying the right things and participating in the right community and charity events and initiatives not directly related to one’s job (various committees and projects, often HR-related).

– Bank-specific cultural fit may manifest itself via ‘extracurricular’ activities within the firm or externally, including community work. It is seen as less tangible and in many ways less directly related to one’s day job.

**How to show credentials of a human capital developer when not managing a team?**

This remains a challenge even as we heard from some respondents that they see evidence of the MD promotion being increasingly tied to managing a team.

– Rely on feedback via 360s in the ‘junior’ category (the use of 360s is explicit in the structured process, and not evidenced in the unstructured process).

– Volunteer in recruitment.

– Focus on your team and make sure your manager knows your role and will attest to your track record as human capital developer.
Criteria

How are the criteria weighted?

Weights that people put on the MD criteria and the specific meaning of the criteria are subjective. For some people the biggest weight is the results, and the rest is fluff. The subjective interpretation of the criteria has a bigger impact if the panel member is not personally familiar with what the candidate does.”

Where the criteria are written up, there are no weights indicated in the documents. Our respondents shared several observations.

- A first-blush interpretation of no weights attached to the criteria is that of equal weights, unless one should be guided by the order in which the criteria are presented. For example, some respondents said that the list of criteria for one bank starts with client relationships, and for another one with results, and both place the corporate citizenship and culture components towards the end.

- A number of respondents were quick to point out that the general perception is that the biggest weight is given to financial results (with some suggesting a specific dollar value revenue threshold being used). This is perhaps driven by the temptation to overweight what is most objectively measurable.

- Production/financial results may receive a heavier weight for candidates from the front-office as opposed to infrastructure.

- When asked, promotion panel members do not necessarily have a consistent view. Some respondents suggested they were told by certain panel members that the weights are equal, while other panelists singled out specific criteria that matter most while the other criteria are ‘check the box’. Weights may become subjective when there is lack of guidance.

- At one bank, all other things being equal, the contribution to the culture and the community is seen as a make-it-or-break-it element.

- Relationships will trump revenue / financial results.

- Interpretation of the criteria within the capital markets organization of a given bank is not necessarily uniform among various front-office functions, or between the front office and infrastructure.
Criteria
Are there any unspoken criteria?

Unspoken promotion criteria are generally understood to exist but are rarely directly communicated other than one on one. Given the inherent subjectivity of the criteria and of the process, the respondents believe that sponsors have an important contribution to a successful and timely promotion.

- External factors — market and competitive conditions at the time (how well the entire business is doing and how well the candidate’s business is doing).
- Internal organizational dynamics.
  - Number of MD promotions allocated to the different businesses — there is a sense of a quota on MDs, including both internal promotions and external MD hires.
  - Structure of the group — how top heavy it is relative to the nature of its business and competition.
  - Group dynamics — how many MD-ready people the group has and what happens if one is promoted; harmony of the team.
  - A small minority of respondents suggested that there are also diversity considerations at the firm or group level.
- Individual ‘special situation’ factors.
  - Risk of flight if the individual is not promoted at this point.
  - Promotion in lieu of higher compensation (as some people are seen driven more by title / prestige than money).
  - Is the title necessary for external reasons — client interactions at a certain level require a commensurately senior title.
  - “Already operates as an MD”.
  - Will the candidate represent the firm well — sufficiently ‘presidential’ (for D, this is expressed as “can I put them in front of my clients”).
- Likeability factor, sometimes expressed merely as ‘having no enemies’ — it can be a popularity contest, “a bit like vying for class president”.
  - One must fit in well with the group and the manager, also on a social level — women in particular mention making a conscious and strategic effort around this.
  - Assimilation (a female strategy) — acquire skills such as golf to fit in.
  - Make sure your own boss likes you.
  - What comfort level the promoting committee has with the candidate.
- ‘Political’ factors.
  - How well the candidate promotes himself or herself and how vocal they are in asking for promotion.
  - Develop the stomach to manage up.

Respondents’ observations and strategies

There is a club, not necessarily boys club, but you must fit in — be friends with the right people, network and get yourself in the club. It’s often social — people on the sell-side live in the same area, kids go to the same schools. You must make a conscious and strategic effort around this — even if it interferes with kids and family, it’s an investment in your career.

Based on concrete observation with different managers, there are two promotion processes: traditional per the rule book and expedited. Very top down, right relationships — everybody lines up because they know that you are his person. On that basis you can go from D to ‘level 2’ MD, jump ranks, with just a word at the right seniority level. Those relationships are often either from another capacity or working together at another firm. Strong sponsorship should really be a deeply-vested professional interest, but it may be perceived as favouritism. I’ve seen that when regime changes happen and some people are brought in and made MDs with a snap of fingers.”
Criteria

How does one know what the criteria are?

Criteria are not easily obtainable. They are freely available to ‘managing MDs’ — those with teams (and, by the way, it’s questionable if MDs without teams are MDs at all). MDs have more visibility to the process if they have gone through it themselves. So to get the criteria, it often has to trickle down from your boss’s boss to your boss and to you.”

- Unwritten rules are passed around as part of the bank’s ‘culture’ — “one is ready to be appointed an MD when one already acts as an MD”. But it’s easier if one’s manager offers the information.

- When the criteria are spelled out but are only available upon request, one can get them from one’s manager (and we have been told that some managers refuse to share them, presumably in a belief that the candidate is not ready to be considered for the MD title). As the document is ‘in the system’, the criteria document also circulates as people network and start to research promotion opportunities.
  - In this environment, those people who are less networked may not even know that written criteria exist. Some of our respondents suggested this is more frequently in the case of women. That particular bank has a network of women who have been helping one another and sharing information, including the criteria document. Our respondent said that this process has been targeted by management for improvement.
  - Some of the respondents do not think that the criteria document would be available from the HR department (unless one is a people manager), while others thought that HR is an underappreciated source of career-development information, a particularly good resource for women.
  - One can also stumble upon the criteria document when participating in HR-related ‘extracurricular’ activities, such as recruitment.
  - When a bank does not make the criteria broadly available but has a structured promotion process, the document is formally made available as part of the nomination package.

- ‘Good managers’ discuss the promotion criteria, whether written or unwritten, during performance reviews or informally during the year for people in the category of looking to be promoted at some point.

- Recently, in response to employee feedback at least one of the banks made the promotion criteria broadly available by posting them on an internal website. Not all of the respondents from that bank were aware of that.
Respondents’ assessments

How the promotion criteria are perceived

Who makes the decision? Backdoor socialization of senior management is a large determinant. The panel members are not stupid – they are all MDs and they are aware of the hidden power structure, know which way the wind blows. So it’s not an average score, it’s a dog and pony show to a degree. The veto right of the committee is respected by senior management. But there are hidden stakeholders who ultimately make the decision or can choose not to make a decision by not pushing for someone where they don’t have an agenda. So the decision is more of a consensus rather than average. One bad apple can screw you, like when you were vying for class president.”

Quantitative vs. qualitative criteria

Respondents distinguish between a) quantitative criteria (more directly / objectively measurable), and b) qualitative criteria (soft, subjective).

- The more objective the criteria, the easier it is to demonstrate one meets them — for example, the P&L. Where the P&L is not high enough (for example, money markets in the case of an MD) or not directly associated with the role (quant, structuring, some formats of research, infrastructure), the candidates must focus on and compensate with some of the following.
  - Better visibility to one’s manager and also other senior managers.
  - Evidence of external visibility — important clients mention their name to senior managers, and the media.
  - Ability to articulate and quantify one’s contribution to other group’s P&L.

- The more explicit the criteria, the easier it is to demonstrate that one meets them (and also easier for the candidate’s opposition to counter).

- The less structured the process is, the more focus there is on the P&L, relationships and visibility.

What’s visibility?

One can get visibility either through the sheer P&L (for marketers to become stars, homerun trades with outsized profits or performance are better than high margin, extremely lucrative but small trades) or through participating in strategic extracurriculars.

- One can obtain both visibility and breadth by working across different lines of business and getting exposure to different client segments. But this can be tricky to get if one’s business is a natural silo.
One needs to build goodwill to get the benefit of the doubt when it’s needed, develop a profile well in advance of promotion, start early and let one’s relationships grow.

A healthy dose of self-promotion helps. Be seen, belong to the right groups. But it does not work when it becomes obvious.

Presentation skills are important (in general, but also in the context of the self-pitch during interviews in the structured process).

“In this business you rely more on the people above you than below you (‘managing up’) — it’s not cynical, it’s strategic; one needs an image.”

Image management

Image management is related to visibility and to credibility that one builds through prior interactions.

But it’s also about reputation. “Someone who has never really had a lot of interaction with me will have an opinion because of what other people are saying”.

Be aware of asymmetrical subjective criteria. “If someone has something against you that is visible, you are done, but if it’s strongly for you, it’s hard to prove. The class president syndrome. Know where your enemies are”.

“Work hard but also make sure people see you working hard. One has to show commitment, start early and stay late, not leave the floor for lunch.” With the proviso that there is subtlety involved as this can backfire.

“You don’t drop everything to manage expectations but everything you do needs to consider expectations and optics management.”

The importance of a broad base of support

All respondents stressed that this is a personal relationship-based business.

In the unstructured process, absent an existing working, extracurricular or social relationship with the decision makers, one has to seek out such opportunities, including the famous elevator pitch. Develop your own brand beyond your job by networking with senior management, whether on a project, through volunteering or charitable effort.

In the structured process, the same applies to contact with senior management on the assumption that the hidden power structure is still an important part of the process. Ideally one also develops exposure to the panel members (tougher to ‘engineer’ given the rotation of the panel, even though the pool is generally limited to certain senior MDs). Then there is the formal interview and the informal meetings ahead of it — meant to reduce the reliance on just the interview and to help to establish a relationship.
Networking is one thing, but then it’s also important to campaign with the panel audience during the actual promotion process. One respondent suggested to think about it in terms of two major steps: first, getting into the process; second, maximizing one’s chances for success.

Promotion via relationship — because someone believes that they can entrust this mandate in you, based on your track record.

“My clients have been the biggest supporters of my career — they communicate my success back to senior management and also point out external opportunities to me”.

Meeting expectations is not enough

Whether because the written criteria convey this message or because the information informally gathered indicates it, there is an agreement among respondents that merely meeting the expectations does not mean one is well positioned for a promotion to MD. The written criteria are seen as the minimum requirement; it is understood that the process is competitive and more candidates are considered / nominated than the actual number of ‘spots’ each year (which is thought of as a hard cap). Outperformance in the annual evaluations appears to be a necessary but not sufficient condition.

Annual performance is assessed with quantified metrics but they are not necessarily considered to be very meaningful and are seen as subjective and distorted at the individual level by bell-curve fitting.

What does ‘exceeding’ one’s regular goals mean? Beating targets but also going beyond one’s job description.

- Volunteering, recruitment, mentorship — with increasing scope of responsibility in these areas.
- Leadership, community work.

People management and the MD title

Opinions differ whether an MD title must involve actual management of teams (a belief we heard more on the unstructured side) or can also involve mentorship and indirect people development (e.g., recruitment).

Some respondents suggested that people-management is increasingly understood to be a necessary requirement for the MD promotion at their bank, and that this focus is relatively new (it was more common in the past to see MD promotions of people without team management responsibilities than nowadays).
Process
What are the steps in the promotion process?

Based on respondents’ observations we reconstructed the promotion process, noting that two distinct models co-exist in the Canadian financial sector: the more traditional unstructured model and the structured model.

**Unstructured**

1. Ahead of the annual promotion consideration (sometime in the fall), the manager prepares the candidate’s profile (this task is at times delegated to the candidate or completed in consultation with the candidate, though at other times the candidate may not even know that this is happening).
   - The manager presents his or her candidate in front of a committee (of other MDs or just senior MDs in the group — the responsibility comes with certain leadership roles).

2. During the committee meeting, the business leader seeks supportive or dissenting views from the committee (which may or may not be pre-orchestrated, depending on how much of a command-control the culture is and whether the decision is actually made by the committee, or rather — more likely — by the business leader and a small group of most senior leaders and only rubber-stamped by the committee).

3. The candidate is notified by one’s manager during bonus time if they are being promoted.

**Structured**

1. The manager, in collaboration with other senior leaders, proposes the candidate’s name for the promotion pipeline with a forward horizon of a couple of years (the candidate may or may not know about it as it is at the manager’s discretion to discuss the concept and status of the pipeline).

2. Once the candidate in the pipeline is approved by the senior managers for the given year, the actual promotion process is launched with HR sending the candidate and the manager their portions of the nomination package. To the candidate, it often looks like this is the start of the process.

3. The candidate prepares his or her own profile, and the manager the manager’s presentation.
   - The manager is encouraged to work with the candidate on the self-write-up. It is at the manager’s discretion whether the candidate will see this write up or not; in some cases they may be working on it jointly.
   - HR is involved in an advisory role — and how active they are depends on the HR consultant.
   - Some respondents reported that the self-profile was more than just a brag sheet or a resume, and that it was more like a presentation of one’s
‘business plan’ — how one can advance the institution’s goals when in the MD role. In the case of Ds, the self-package was more of a resume, with a focus on how one adds value.

- The self write-ups are interpreted as demonstrating how the candidate meets the written criteria.

- 360s are also done — with peers, seniors and juniors.

- The candidate has an opportunity to discuss the results with HR and the manager ahead of meeting the committee members.

4. A mentor from the promotion panel is assigned to provide insights on the process and the panel’s expectations. The manager may also provide such information.

5. The candidate is encouraged by HR and the mentor to set up informal meetings with the members of the promotion panel (the goal is to meet all 8–9 panel members).

- This is seen an ‘informal campaign’ to educate panel members.

- The meetings are an important opportunity to a) present oneself to those panel members whom one does not already know and pitch one’s importance to the franchise, b) describe the candidate’s business, role and value added to those members who did not understand the candidates function (especially when it’s a specialist role), and c) to ask questions about each member’s expectations and hot buttons and figure out through what lens the panel will be looking at the candidate.

- Some respondents said that they were advised to prepare a separate one-pager for the informal meetings.

6. Manager’s presentation of the candidate to the panel.

7. Formal interviews with a few members of the panel. Less focus on the candidate and more on the role, value added, and business strategy. The interviews do not appear formulaic — each member has his or her own agenda.

8. A tweak to the process is that the manager may be called back for an Q&A (those tend to be the ‘maybe’ cases where the panel is seeking additional information; the panel members have also been seen doing their own due diligence).

9. The panel’s decision is referred to senior management. Decisions are announced at bonus time, but early signaling by the panel members and the manager has been observed.
Process

Who initiates the promotion process?

One needs a healthy amount of self-promotion as well as support. Be out there, network, and make sure that people who make the decision know who you are – well in advance of the actual expectation to be in the pipeline. It’s also the manager’s responsibility — if they are looking to promote someone they need to expose them to larger audiences.”

Whether in the structured or unstructured environment, one needs to initiate conversations with one’s manager, and / or with other potential senior decision makers or influencers to convey one’s title / promotion aspirations: “The MD title is something I value and want”. However, one does not formally ‘apply’.

- Active pursuit of promotion is particularly important when “you are not in an ultra-high-margin super-lucrative asset class or your business has cost pressures or is top heavy”.
- Some individuals may take a more passive stance — “let my actions speak for themselves”. But many respondents think that this is not the most successful strategy.
- The passive approach might have been more successful in the past but it is increasingly more difficult to become an MD. There is also a perception that those who put up their hand likely get promoted sooner.
- According to one respondent, “the initiation should come from above, not from the candidate raising their hand”. As another respondent phrased it, “you need a sponsor or your senior manager to put your ring in the hat; then that sponsor endorses you and you will be vetted by other people, members of other groups”.
- Either way, one must absolutely want to move up in order to be successful in the promotion process.
- In the structured process “there is a pipeline; HR is the steward of the pipeline but the pipeline is agreed on by senior LOB managers” — visibility to those senior managers is critical.

Respondents’ observations

People get turned off networking because it is the shallow networking that is more visible, because this is what the majority of people do. If you ask the question “how do I network more”, you are already a lost cause. You have to let your relationships grow. It does not have to be by chance, though some are. And you don’t have to be duplicitous and a schmoozer — real relationships are built on real things. But they take time and casting the net wider and early is important. People do give this advice a lot already. But 25 year olds tend to misinterpret it as schmoozing and you end up with shallow networks. Meanwhile, during organizational regime change the trust bond trumps everything else.”
How to learn about the promotion process?

There is a perception that to become an MD one has to be sponsored form outside the group, outside your manager. One needs ‘referrals’ from a number of peers, superiors, and subordinates (through the 360s). There is less clarity in a satellite office about how to secure that sponsorship — perhaps talk to one’s ultimate manager in the head office and a few other MDs to see if it’s feasible.”

Many of our respondents had some experience with both the structured and unstructured process, but we also encountered people who worked in only one of the two environments. We grouped respondent’s observations by type of environment.

- The unstructured process is opaque to the point that some respondents did not know that they had been put up for promotion until they were officially advised by their manager that they have been promoted.

- In the unstructured environment, the respondents said they are not aware of any formal process. But most acknowledged that there is a promotion committee (for all titles) consisting of senior managers (group heads in the trading floor / capital markets area, and perhaps all MDs in IB).

- Respondents mentioned two information flows.
  - Word of mouth percolates down from senior people who are decision makers.
  - If one’s manager is part of the process, he or she may be willing to provide some colour.

- Given that the capital markets organizations are relatively flat, even in an opaque context it is relatively easy to figure out who the senior managers are that make promotion decisions and make the right connections to learn how the promotion process unfolds.

- The structured process is transparent, even formulaic.
  - The nominees are actively involved.
  - As a result, our respondents who participated in the process were able to accurately describe the steps, and even those who did not participate had reasonably precise information about the steps in the promotion process.
Once nominated the candidate is formally introduced to the process by HR and provided guidance.

- In addition, one of the promotion panel members becomes the candidate’s sponsor.

- Ahead of the formal interviews with the panel, the candidate is encouraged to meet with the committee members informally and has an opportunity to ask questions about the process, seek guidance (as well as pitch oneself).

Some respondents said that the process (and criteria) were not obvious to them until they got the package.

- Others have learnt what the process is like from their manager or through informal channels well before they were considered for promotion.

It is not clear how one gets to the point of being nominated. Some respondents mentioned a multi-year ‘pipeline’ and a ranking process, which appear to be determined by senior management.
Process
What are the timelines of promotion?

In the unstructured environment promotions visibly coincide with the year-end bonus awards. On the structured side, the respondents’ perception is that the process starts sometime in the summer (anywhere from June to August), unfolds September–October, and culminates with the announcement of promotions in early December, coincident with the annual bonus awards (Canadian bank’s fiscal year end is October 31, and financial results are announced in early December).

Strategies and tactics

- Hidden timelines
  - The ‘process’ may in fact start much earlier, whether one works in an unstructured or structured environment.
  - Some people start the conversation about promotion to MD at the time their manager advises them of being promoted to D because it may take a few years for the ‘stars to align’.

- Momentum matters
  - Put one’s hand up — well in advance and frequently, have an engaged and influential manager, have a good year for oneself, one’s group.
  - Be engaged; know what your franchise and your internal clients need you to do.
  - Being a bit lucky matters too.

- Preparation matters
  - The promotion process requires longer-term preparation. Even in the unstructured process, one can prepare and formulate one’s own plan.
  - Get involved in very profitable initiatives or new ideas, bring different areas of the organization together, and participate in joint projects.
  - Change desks if your current desk’s P&L is too low and it does not do high-profile, banner transactions.
  - Be opportunistically mobile: willing to move to an empty seat, even if it was not a dream placement.
  - As soon as you get good at something, move – but you need to be willing to take the risk, and someone needs to believe in you and take a risk on you. Don’t get too comfortable in a job, in a ‘nice life’.
  - Also have external options and demonstrate them (being able to walk away).
  - Treat your volunteer career like work career and move up the chain too.
In the structured process, good preparation ahead of the interviews is particularly important: make sure to meet the panel members as recommended ahead of the formal interviews; prepare for interviews in the same way you prepare for an important client meeting or perhaps for a job interview; get the bigger context — the bank’s strategy, what keeps the CEO awake at night.

- Patience matters
  - Wait for the right moment when the stars align; in the meantime work on your track record, reputation, and visibility.
Process

Who makes the promotion decision?

I didn’t have any insight as to who was making the decision. I assumed that there’s a vote, I didn’t understand that the head of the panel had the final say.”

Unstructured

- There may be a Delphi process of arriving at a consensus decision ahead of a formal committee meeting, with a possible scenario where the short list is pre-approved by the key decision maker (head of the business).
- In another iteration, support for the presenting manager from a few other members of the committee may be somewhat orchestrated and result from pre-negotiation (that our respondents referred to as ‘horse trading’ of favours).
- This is a competitive decision-making process where managers who put up their ‘own’ people fight for a small number of MD spots.
- Personal relationships with the decision makers are a critical success factor (the sponsorship effect).
- While the successful candidate is more likely than not to be personally known to the key decision makers, his or her manager’s pitch (and the weight the manager has in the organizational hierarchy) can help get the buy-in.
- Our respondents reported that in the unstructured context the same senior manager committee deals with all title promotions.

Structured

- Despite significant transparency of the structured process itself, much less is known to the respondents about the dynamics of decision-making (unless they themselves have sat on the D or MD promotion panel). This part of the process remains as opaque as at the unstructured part of the spectrum. The dynamics may also change, depending on the panel composition in a given year.
- Similarly, the entire pipelining process, which precedes the actual nomination (by sometimes 2–3 years) and which appears to determine who will be nominated as a candidate for the formal promotion process, is opaque and the dynamic is more akin to that in the unstructured context (i.e., not formalized or documented).
Absent any specific knowledge about how decisions are made, respondents assume one of two possibilities: a) a formal vote, or b) some sort of consensus.

- The respondents who participated in the panels suggested the latter, consensus, rather than the former. Still, there is evidence of subtle negotiation within the panel as each panel member has a strong personal view and may be supporting the candidates he or she knows well and with whose business / manager they interact frequently.

- There a general sense that the head of the panel has veto power, but that it is rarely used.

Similarly, there is a perception (confirmed by panel participants) that the head of the business has the ultimate veto power (as the panel decisions must be formally approved by the head) but that it is not used lightly.

- We keep in mind though, given the respondents’ comments about the pipeline process, that it is a confidential opportunity to pre-screen the candidates by senior management and the business head, thus reducing the need to exercise the veto power at the end of the process.

As well, our respondents assume that in the structured environment horse-trading is more likely in the pipeline part of the process.

Another angle on this is that the people on the panel are MDs, they understand the hidden power structure in the firm and will incorporate that into their decision making process.

There is a view that panels rely on collaborative decision making (more broad-based, less dependent on the views of one person and less vulnerable to any individual biases).

There are some areas where the respondents felt that panel decision-making may be vulnerable.

- While clearly spelled out criteria are a more consistent measuring stick, we did hear reports of non-transparent outcomes.

- The structured process is rigorous yet politics has crept into it.

- Decision by committee is vulnerable to group-think. The unstructured process might be better in this regard as the role of the leader is stronger.

In the structured system, the responsibility for promotion appears to be delegated to lower-ranking managers compared to the unstructured system (where the decision making power is more concentrated in the hands of senior management).

- Some of those lower-ranking managers are not as broadly exposed to the more specialized areas from which some candidates come as the
most senior managers would be.

- We did not hear any evidence of a systematic due diligence or educational process that would allow the panel members to gain a baseline understanding of the various businesses of the candidates other than through the candidates and their managers.

- This may undermine some of the typical objectivity of the process.

- The committee receives little guidance or training (HR presence is low key, the chairman leads)—panel members should be better prepared for the responsibility.

- Some respondents noted that the process does depend on who leads the committee in a given year and who the HR representative is.

- Whether structured or unstructured, there is little appearance of any formal or documented decision-making methodology or approach that would consistently carry on from year to year. The continuity comes from the fact that more or less the same group of senior managers and business heads makes the decision every year (with the exception of regime changes).
Process

How is the decision announced?

Across the spectrum, a successful candidate is advised when the decision is made and approved (typically by their manager, but also possibly by other senior colleagues who are in the know or by the unofficial ‘sponsor as the information can leak out). The official email announcement follows (typically for all promotions at the firm across titles, typically at the time of year-end bonus awards).

What if the decision is negative?

- The nature of the unstructured process is such that it hardly ever happens that a negative message needs to be delivered explicitly.

- In the structured process, there are several layers of feedback available when the decision is negative.
  - A starting point is feedback from one’s manager.
  - Unsuccessful candidates are encouraged to speak with committee members to better understand where the gaps were and strategize about how to bridge them next time.
  - Feedback from the HR consultant present at the panel meetings is also available though it appears that the value added depends on the individual consultant and their familiarity with the personalities on the panel and the dynamics of the process.
  - Some candidates are nominated again and succeed, while others for various reasons may not be put forth again by their manager.
  - Returning candidates have higher self-awareness.
  - It’s also a bit like “having already written the test”.
  - Success the second time around highlights the need to be prepared.

Negative decision

Some unsuccessful candidates go back to the pipeline and may be nominated again. Some are not invited back as they compete with someone else in their group who came up the ranks behind them and there is only room for one promotion. Or the manager may decide they are not putting up that candidate again, or not until the candidate is ready.”

An unsuccessful candidate can learn from the process, make some changes, reach out to the members of the panel and find out where he or she fell short — a handful come back the next year and it is a completely different presentation, but it’s also like writing the same test again.”
Respondents’ assessments
How the promotion process is perceived

When the structured process was introduced, people started to figure it out and display some good behavior, more cooperation, as they knew this feedback would come up. But they also learnt to do things not necessarily advantageous for the firm, for example people not naturally inclined to do volunteer work would 'tick the box'.

In this section we aggregate respondents’ reflections on the entire promotion process and their thoughts about the implications it has for the individual, the direct manager, and the firm as a whole. We grouped the respondents’ comments into six topics.

- The structure and transparency of the process.
- The role of the direct manager.
- The behaviours that the system promotes.
- The importance of being prepared.
- Consistency of outcomes.
- Broader organizational impacts.

Unstructured = more guesswork = engenders very serious pursuit of the P&L (at the expense of teamwork, willingness to share wins; cooperation among senior people).

Structured – unstructured, transparent – opaque

- In an unstructured system the criteria are not clearly defined but the senior leaders who make decisions tend to observe people’s entire careers and know a lot about their employees.
  - Without stated criteria, the unstructured system involves more guesswork and thus may overly emphasize the most tangible criterion, the P&L or tenure in the prior role, at the expense of teamwork. This may drive people to avoid lower P&L positions entirely, for the wrong reasons, and even bias the desk structure.

- On the structured side, many panel members are trying to get to know the promotion candidates at the time of promotion.
  - The transparency of criteria in the structured system makes it easier for the panel to evaluate.

  “Written criteria help everybody: for senior managers, they help frame the conversation about what the candidate needs to improve to be seen as a senior leader and help them communicate, take the ambiguity and guessing work out for the candidate”. Written guidelines are also probably helpful in mitigating some of the hidden biases. Written promotion guidelines help senior managers develop the culture and make it less opaque.
The role of one’s direct manager

One’s direct manager is seen as a key success factor in the entire promotion process. This is universal along the spectrum from the unstructured to the structured.

- The manager is seen as initiating (or blocking) promotion.
- The ‘right’ boss is hierarchically influential and a good persuader.
- A good manager takes personal interest in your career from the very start, the day they hire you.
- The manager adds value by exposing you to larger audiences.
- Your manager should train you as a coach, a mentor, then a sponsor, and give you guidance during the preparation part of the promotion process.
- One must consistently communicate one’s aspirations to one’s manager (whether in a structured or unstructured environment) and to other senior managers if possible. This works as both good communication and the ‘squeaky wheel syndrome’. Women in particular should always focus on initiating this conversation.
- A manager with a weak position is not looking to promote anybody — ‘absenteeism at the top’, negative politics.

What behaviours does the system promote?

- The structured process promotes last minute coaching behaviours, internal or external, which makes it more difficult to distinguish who is a natural and who’s been coached. On the positive side, as this industry is not naturally seen as good at coaching, the structured process may over time help people develop into better coaches. It forces the manager to think more systematically about talent management.
- The structured process improves communication and feedback, and develops the manager — but is more demanding on the manager as at a minimum it forces them to learn to provide feedback and suggest ideas for improvement.
  - The use of 360s is seen as positive. 360s offer more diversified feedback (even if it is not clear whether a likeable individual will get a better result as people know that he or she is going for promotion and may decide to support the likeable candidate).
- The structured process may promote ‘check the box’ attitudes among both candidates and the panel, especially with respect to the community and volunteering activities. As such, it is easier to game. Other respondents argue that the approach stimulates behaviours expected by management, and that the gaming behaviours are transparent.
The structured process creates artificial demand for certain important volunteering activities, notably recruiting. As a result, people who are naturally interested and good at these activities step down to make room for those who need to ‘check the box’ — to the detriment of the franchise and the new hires.

There is too much focus on last minute campaigning in the structured system — and with so much weight on it, the process promotes the individuals who find this kind of self-campaigning easier.

The interview process forces the candidates to focus on how to better articulate what they do and how they add value, in a way that would be persuasive to non-specialists on the panel. The diversity of the panel and lack of depth in more specialized areas makes it tougher to construct an effective pitch.

There is a perception that in the structured process one has two chances – one can ‘flunk’ once. There is also a perception that one is more likely to ‘flunk’ the first time than ‘pass’.

Some respondents suggested that it is surprising that deficiencies are still found by the panel in those candidates who have already gone through the calibration and the ‘pipelining’ for the nomination, along with the customary HR processes. One explanation is that some managers knowingly put forward people who are not ready for promotion as they prefer the panel to make a negative decision.

The unstructured system is more prone to subjectivity and may promote behaviours driven by a belief that image management is a success factor.

The unstructured system is more prone to favouritism and horse trading — lack of transparency seems to facilitate such behaviours.

The unstructured system is more prone to be perceived as political, where a sponsor or advocate is critical, and where the visibility of the candidate may be overemphasized.

The importance of being prepared

The knowledge of the process is seen as a key success factor, yet access to that knowledge is uneven and depends on how well the person is connected. Knowledge of the structured process is accessible during nomination but the pre-nomination process is equally obscure as in the unstructured context.

Some of our respondents with global bank experience alluded to formal career planning processes — a framework within which you know not only what you are to achieve and what your goals are, but also discuss stretch assignments and transfers, with something at the backend to continue you along and someone with whom you could actually sit down and map it out. Absent that, for most people, career planning appears to be their own initiative, supported at times by mentors or sponsors, and is often opportunistic more than deliberate.
According to many of our respondents at D and above levels promotion becomes in part a function of sponsorship and luck. There is a perception that while criteria exist as an ‘HR practice’, it really depends on sponsorship at senior executive level, not necessarily in a direct reporting line but several reporting lines above.

“Any D that wants to make MD should be sufficiently savvy and intelligent to understand the hidden power hierarchies within a firm”.

“Important to keep in touch with HR – and few people do. They are informed.”

Consistency of outcomes

According to some respondents, the unstructured process is perceived to have a tighter control of who is promoted along the hierarchy, and better consistency (unless there is a regime change). Other respondents argue that the structured process is more prone to promote homogeneity as the panel follows the criteria, and cite anecdotal evidence that MDs in the structured system are more ‘from a mould’, while in the unstructured system different personalities tend to rise to the MD level.

The structured approach makes it easier to extend the process to the external hiring at the MD level — it levels the playing field between internal promotion and external hires. But some respondents suggested that for external hires the panel is just rubber-stamping the decision to hire (or perhaps looking for gross deficiencies only — still, that is considered an incremental benefit).

Organizational impact

The formal, structured process is seen by respondents as more complex and involved compared to the informal process. There is more paperwork and interviews. The manager’s involvement is seen as more intense; at times in addition to the initial presentation of the candidate to the panel the manager needs to step in and educate the panel as candidates are sometimes rejected for promotions because the panel does not understand what they do. But it also results in relatively few surprises. Some respondents noted a positive personal development impact: “it’s a lot of work but it makes you to really understand what you are doing, and helps you to better understand what the bank is doing.”

Lack of transparency in the unstructured system hurts people in the more specialized areas of the trading floor — they may discover late that promotion to MD requires a broader skill set.

The structured process has not entirely succeeded in reducing the dependency on the P&L — individuals from groups without the P&L, smaller areas, or narrowly specialized areas have a tougher time in front of the panel.
A ‘non-P&L’ function is a misnomer. Structurers regularly contribute to the P&L. Recruiting effort affects P&L 3-4 years down the road. Just harder to measure, harder to demonstrate. We are in the business where people like to press F9 on the keyboard and see what the value of what they are doing is right now. This is still a hurdle and a challenge – it’s not a broadly held view that everything contributes to the P&L. Anybody in senior management understands the value of the non-direct-P&L functions, but not every middle manager.”

- The structured system increases opportunities for feedback (and opportunities to get constructive feedback are rare).
  - People need to get coaching regarding the need to broaden their skill set, as well as to increase their awareness and understanding of other roles. In the trading room, early career promotions are based on specialized skill. Yet to become an MD, one needs to understand other people’s businesses. Learning to be a generalist should happen much earlier in people’s careers than they think.
  - Weaker spots in the 360 feedback suggest areas of improvement.

- The structured process works well when there are clear opportunities to move up. Promotion becomes a black box when such opportunities are limited (because of lack of growth or increasing specialization).

- The role of HR is seen as someone who runs the process. Someone from HR is on the panel and HR is part of the conversation but they are not a loud voice, more of a supporting role, prompt the panel with other things to think about. Some respondents suggested that HR is aligned with senior management and executes on the top-down vision (the overall number of MDs, the process, flight risk management, etc.) rather than with the individual with regard to their development strategy.

- While increased transparency in the structured process is generally seen as positive, one of the costs is the need to communicate a negative decision (it may be demotivating and even lead to a departure of a strong though unpromotable employee), while in the unstructured system the need to communicate negative decision does not arise.

- We have also encountered a view that there are two promotion processes: traditional per the rule book, and expedited. The latter is very top down, based on the right sponsorship. Those relationships likely stem from an earlier working relationship at this or another firm. There usually is a deeply vested professional interest, but the relationship may be perceived as favouritism. The expedited promotion may surface more often when regime changes happen.
Research insights

Are firms getting the people with the necessary skills at the top?

I would prefer the responsibility / the right role and the title, than just the title.

The function of the Managing Director job in a firm

MD title vs. MD seat
One of the more striking findings in our data was that the distinction between MD title and MD seat was not clear in people’s minds. Similarly, there was ambiguity among our respondents whether the promotion represented just a new title or title and new responsibilities. For example, one of our respondents observed that in a bank with an unstructured process there are a lot more MDs than in a bank with a structured process — “almost as if you have to stand still long enough and you become MD” (as almost all senior sales, traders and analysts are MDs). At the same time, in the structured banks there seem to be higher expectations and responsibilities of MDs — “you are carrying the brand and got responsibility for staff development” — than in the bank where there was a broader distribution of the MD title.

Management training
Another observation that was shared across many respondents was that managers get very little management training. It was unclear also whether the training, to the extent that it exists, is consistent across the firm. This made us question whether the promotion process and access to it (the pipeline) are used as a management tool, or rather as substitutes for a formal talent management program and attending training support.

What does research have to say about this?

Economic purpose of promotion in organizations
One stream of research that speaks pertinently to these issues is economists’ work on the purpose of promotion in organizations, in particular for matching vs. provision of incentives (e.g., Baker, Jensen, and Murphy 1988; Campbell 2008; Gibbs 2008; Ittner 2008). From their perspective, the purpose of promotions is to provide incentives when they are set up in such a way that they effectively reward past performance with increased pay and rank in the organization. In contrast, promotions are said to serve a matching function when they sort employees into the jobs for which their skills and abilities are best suited.

The conclusions of this body of research is that whichever of the two (incentives vs. matching) is chosen as the purpose of promotions in an organization, that purpose should inform how prior performance data is used for promotion decision. Specifically, if the promotions are used mainly to provide incentives, then short-term prior performance is a good indicator to look at as basis for that promotion decision. However, if promotions are used mainly to sort employees into different kinds of jobs than they were performing beforehand (e.g., promotion into a job with managerial responsibilities for an individual who prior was an individual contributor), then indicators of the person’s long term average performance should be preferred as basis for the promotion decision, because they are more indicative of the person’s skills and abilities (since they will be asked to perform a new type of job, they must possess more than the skills that allowed them to perform well in the short term before promotion) and also capacity for learning over time.
Thus, the two ways of understanding promotions in organizations have very different implications for whether short-term or long-term information on performance should be used in promotions decisions. They should also inform the organization’s use of non-financial performance measures in promotion decisions. For example, for the matching function, non-financial performance measures have been shown to provide incremental, significant information about the capabilities and expected future performance of the employee in a different task environment (i.e., different job requirements in the new job than in the prior job).

More fundamentally: the multitasking problem in agent-principal contracting
Basic theory of moral hazard suggests that compensation should depend strongly on performance in order to create incentives. In the real world, as labor economists have shown (e.g., Holmstrom and Milgrom 1991), things are more complicated: agents are often required to perform multiple tasks, or make effort in multiple dimensions; tasks are related, being complements or substitutes; success in some tasks can be easily measured and in others not. For example, senior bankers are expected to bring in revenue and manage their group well. Revenue is easily measured, group management is not. Thinking in terms of one-dimensional model, we would think that it is a good idea to compensate bankers based on their revenue only. But, this might divert effort from managing the group; in the long term, the firm might suffer.

From the firm’s perspective, providing incentives to a risk-averse manager to choose high effort when effort is unobservable (in this case, applying good managerial skills) is costly. Hence, we write contracts that compensate the manager based on performance, which is a noisy signal of the manager’s effort. In some cases, moving to unobservable effort is so costly that it will lead to a shift from high to low effort. Non-observability of effort is a problem even though in equilibrium the principal knows exactly what effort the agent is choosing.

Since the level of effort is not observable and cannot be contracted upon, the contract has to ensure that it will be desirable, and this is costly. Potentially, this is why it has been circumvented by many, if not most, except the very top global financial firms, so far.

Research has shown that there are real implications for the firm when people are good at gaming the incentives in multitasking performance systems. Following a change in the organizational incentive structure, employees learn, over time and with experience, how to be more productive under the implied objectives of the incentive regime, as well as how to game or exploit it. For instance, a study (Obloj and Sengul 2012) of outlet-level data from a Polish commercial bank over a 13-month period shows that the bank outlets’ value creation (sales revenue from primary loans) and value appropriation (the sum of outlet employees’ monthly bonus) both increased, at a decreasing rate, over time as outlet employees gained experience under the new incentive regime. In parallel, the bank’s share (the percentage of value created by outlets retained by the bank) increased at first, then, after reaching a plateau, decreased continuously, indicating that the ability of the incentive regime to induce the intended results evolved, giving rise to an incentive lifecycle.

If the purpose of a promotion is to sort employees by their level of ability, then the best performance measure for promotion decisions is the one that is most correlated with ability, rather than effort. This might be longer-term average performance rather than short-term performance. By contrast, if the purpose of a promotion is purely to provide incentives, the best measure for promotion decisions might be recent short-term performance.

Non-financial performance measures (e.g., levels of employee turnover, skills and satisfaction of employees working with or under the individual considered for promotion) are informative about the ability to take on the added responsibility of a more senior management role.

The firm can offer stronger incentives to those with less job-related experience (i.e., associates), because those workers have more scope for
additional learning. Similarly, incentives should be stronger in jobs which, by their nature, have more scope for learning — for example, positions with client relationship management or team leadership responsibilities. And the firm might make greater use of changes in performance rather than levels, if it is interested in motivating more focus on learning.
Research insights

Are firms getting the right trade-off in terms of flexibility and cost of their talent management systems?

In that bank, where the process was very closed door, promotion was something that was handed down as a reward for service, not a natural career progression or a situation where you have to prove you are already acting as an MD before you get the title. And that comes down to senior sponsorship because one cannot prove MD-readiness unless opportunities are presented.

Managing mobility inside a firm

Respondents familiar with the pipeline system (meaning the more senior respondents) suggested that it may be an equally important portion of the process as the post-nomination panel interview process, if not more important as it can serve as a gate-keeper. That process appears to be governed by similar principles as the unstructured process. In turn, ‘calibration’ is the cornerstone of this process; it is done by senior managers / management committee, with some input from middle managers and team leaders; it is the first step, the gating part of the process, where people’s reputations are made.

A frequent observation was that it is more common to see people who should not have been promoted than the other way around (false positives) — for instance, a retention issue of a high producer or a political operator. This appears to be a direct consequence of the political nature of the process and the primary emphasis on P&L during the evaluation and decision-making.

Regardless of the experience and pre- vs post-MD status of the interviewee, we heard a view that the process needs to be hard, competitive, and somewhat exclusive (someone should fail but not to the point of discouraging — if you don’t get it, fix things and try again). When the structured system achieves this perception, it does so through the competitive visibility angle, with an allegation of favouritism undermining this perception. In contrast, the unstructured, closed-door system emphasizes the ‘mystique’ of a promotion as something that is handed down as a reward for service, in contrast with a natural career progression (something that you earn on your own merit).

What does research have to say about this?

Employment systems

The first stream of literature that relates to these aspects is that of employment and staffing systems. These can be understood as attempts to either optimize the match between worker and job, or to offer the optimal incentive for performance to the worker. Thus, two ideal-type systems have been distinguished: job-pull and worker-push (Bidwell 2013, Pinfield 1995). In job-pull systems, staffing processes are tightly coupled to the filling of narrowly defined vacancies. This is typical of large bureaucratic organizations, also seen in actions such as promotion freezes or reductions. In contrast, in worker-push employment systems, jobs are broadly
defined and staffing processes are keyed to individual attainment of specific performance and skills thresholds. In these systems it is common for workers to substantially change the work that they are doing without changing their formal job title, and promotions tend to recognize an increase in responsibilities done by a worker rather than trigger that increase in responsibilities. Furthermore, the firm coheres around a single staffing system rather than use different systems for different kinds of jobs. Worker-push is expected to prevail where flexibility is critical or promotions important for motivating (or retaining) workers; it is for instance prevalent in professional services firms – e.g., law firms, consultancies, banking. However, if cost control becomes vital, or conflicts too difficult to manage, job-pull systems may be adopted.

Modes of mobility
Another perspective that is helpful is that of modes of mobility inside the organization. This perspective originated with Weber's (1947) theory of bureaucracy, which posited that promotions and distribution of rewards in organizations are based on impersonal evaluations and organizationally-relevant performance. In subsequent work, this has come to be known as universalistic mobility, as decision making outcomes depend on consensually agreed-upon, well-defined standards that are available for evaluation (Pfeffer, Salancik and Leblebici (1976). In real life, however, shared criteria are often absent and other processes account for the variance in decision outcomes. Researchers refer to the universalism-particularism dimension, or contest vs. sponsorship mobility (Turner 1960), to describe the extent to which decision outcomes are affected by the particular social relationship existing between the decision maker and those who receive the consequences of the decision.

More specifically, contest mobility is the system in which elite status is the prize in an open contest and is taken by the aspirants’ own efforts. Important caveat: since the prize of successful upward mobility is not in the hands of an established group to give out, the latter cannot determine who shall attain it or who shall not (Turner 1960: 856). In contrast, under sponsored mobility, elite recruits are chosen by the established elite or their agents, and elite status is given on the basis of some criterion of supposed merit and cannot be taken by any amount of effort or strategy. Upward mobility is like entry into a private club where each candidate must be “sponsored” by one or more of the members. Ultimately the members grant or deny upward mobility on the basis of whether they judge the candidate to have those qualities they wish to see in fellow members. Sponsorship, more than contest mobility, is a system that reproduces the social structures, relationships, and profiles of those already in leadership positions.

Authors’ conclusions

- The worker-push system is conducive to flexibility (jobs can be tweaked and people stretched to do different things when economic times change). But, the flexibility comes at a cost: growth is harder to control, and overall the process is more costly to manage because of political processes. All the while, if cost control becomes vital or conflict too difficult to manage, forms of the job-pull system (e.g., clearly defined roles and responsibilities for each job, different staffing systems for different kinds of jobs) are likely to emerge.

- The contest system is closer in spirit to the universalistic principles laid out by Weber in his treatise on the efficient organization of bureaucracies (or large organizations), namely that promotions and distribution of rewards in organizations should be based on impersonal evaluations and organizationally relevant performance. Nevertheless, contest mobility implies that those already in power have little or no say in the selection of their successors. In contrast, sponsorship mobility favors the preservation of the social structures, relationships and types of people already in leadership positions. While this may be preferred in some circumstances, it is helpful to recognize the biggest drawbacks of this system: the risk that high-performing profiles are not given their due consideration, and that ineffectual social structures may be reproduced.
Research insights

Dimensions of career progression for the individual contributors

Promotion in a large organization is like being class president. It’s effective to have a very strong link up the power chain where one person sufficiently high up can say ‘make it so’ and it’s done.”

The use of ‘up or out’

An observation made very frequently in our interviews was that specialized people do not necessarily want to give up the depth vs. the breadth, yet the MD increasingly requires the breadth. One way in which other kinds of firms (e.g., consultancies) have dealt with this problem was to create a role for partners who are content generators as opposed to rainmakers. The structured process in banking appears to be going this way too is one way at least — recognizing that different metrics need to be used for specialists (and not necessarily pushing them to become generalists).

We heard the view that perhaps too much weight is put in the process on the panel interviews — two opportunities to show one’s best side to those panel members that the candidate does not know. How much due diligence these panel members do is at their own discretion. Thus, it seems that the process emphasizes relationship building and personalized knowledge.

The role of mentors or sponsors is informal. The local culture often implicitly favors a “sink or swim” approach: “If no one cares, you are left alone to flounder.” Yet it is also acknowledged that hands-on-training is important: for example, when a junior transitions to a title with client responsibilities (D), it is easier if “someone / the manager sits down with you and walks you through ‘this is what it takes’.” Mentorship is seen as one of the key factors to succeed, yet it is also largely informal and its effectiveness depends almost entirely on the individual characteristics of the manager one happens to be working for — if one is lucky, that person will provide the apprenticeship opportunity, if not, there is little in the system to compensate for that gap. This echoes what we noted in the first theme above about process and access to it (pipeline) being used as substitutes for a formal talent management program. Related to this, the special role of sponsorship in this system seems to be to offer protection, when in general there isn’t much tolerance for mistakes: a pyramid, an ‘up or out’ culture. “Sponsorship protects when one makes a mistake, gets you a second chance.”

What does research have to say about this?

‘Up or out’ and other features of human resources management systems common in professional services firms

Professional services firms (PSFs) have a number of features that distinguish them from other types of organizations. They are often partnerships, meaning that owners are active in the everyday management of the firm; even when leaders are not owners (as is the case in banks), they are responsible for the overall
performance of the firm and claim a share of the profits (Greenwood, Hinings, & Brown, 1990). The ‘up or out’ rule is the most common process for career management, requiring those not promoted to the next organizational level within a specified timeframe to leave the firm (Galanter & Palay, 1991). Other specific features of PSFs include similar career paths for all professionals, a relatively flat hierarchical structure, relatively homogenous set of skills and experiences across members, and high reliance on internal labor markets for promotions to senior organizational positions. One interesting consequence of these features and practices is the emphasis on — or rhetoric of — self-reliance, ‘up or out’ being intrinsically related to the principle of meritocracy, or the idea that merit or value should come through one’s own effort and performance.

Existing research has examined the benefits for the firm of using the ‘up or out’ rule (Gilson & Mnookin, 1985; Morris & Pinnington, 1998), but has not specifically focused on the criteria and process of promotion to senior organizational positions. Nevertheless, scholars have acknowledged that: a) many of the criteria for promotion to partner appear to be inherently subjective (Gilson & Mnookin, 1985), based on a combination of individual’s knowledge and personal attributes, and that b) the biases, politics and power differentials between partners and associates are likely to influence promotion processes (Malos & Campion, 1995; Pfeffer, 1989). In one of the few existing studies (Kumra & Vinnicombe, 2008), interviews with thirty-four men and women associate (pre-partnership) consultants in the UK practice of one of the ‘Big 4’ consulting firms identify the presence of a self-managed career advancement process necessitating a proactive approach to demonstrating individual contribution, and the need to “fit” a prevailing model of success within the firm. These findings highlight the powerful tension that exists in PSFs between the logic (and rhetoric) of meritocracy, on the one hand, and relationship-building, mentorship and sponsorship in order to make one’s contributions be known and appreciated, on the other hand.

Evolution of ‘up or out’ over time

Observers note that ‘up or out’ as a practice is declining in numbers but not in spirit. It remains the preferred promotion system in many law, consulting, accounting and banking firms in the US and the UK, and it is especially common among the largest and more prestigious organizations. First, features like ‘up or out’ endure even when firms switch their governance systems from partnerships to public: comparison of consultancies under different ownership models (public corporation vs. private partnership) finds that managers express a similar commitment to the ‘interpretive scheme’ of the professional partnership model with entailed limited managerial authority, high individual autonomy, and long-term over short-term performance (Empson and Chapman 2006). Second, even when firms introduce reforms to their internal labor market arrangements and management methods (e.g., development of non-career positions and non-equity partnership positions), the ‘up or out’ rule still operates in practice. For instance, law firms in the UK have introduced alternative roles, which provide permanent employment to associates who are not promoted to partner and novel career policies that offer a holistic learning and development deal to associates without any expectation that unsuccessful candidates for promotion to partner should quit the firm. Nevertheless, in practice it was customary for the associates passed over for promotion to partner to leave the firm — as it would be expected under the ‘up or out’ rule (Malhotra, Morris and Smets 2010). Another interesting element is that by far the largest share of alternative roles is occupied by women (85% in the UK law firms studied). In short, it is unlikely to disappear from the formal and informal ways in which PSFs manage the career progression of their individual contributors.

Nevertheless, recent research notes increasing flexibility in how ‘up or out’ is implemented in reality, because some firms acknowledge that practice groups — the expertise-based organising unit for teams of professionals — work with different leverage models. For instance, in the study of law firms mentioned above, the ‘up or out’ model worked best in the core corporate finance practices. To the extent that professional services firms are better conceptualised as constellations of practices rather than unitary organisations, variations in internal labour market structures at the practice group level are to be expected (Anand, Gardner and Morris, 2007). This will be especially the case when the firm’s management is relatively decentralised and local practice group partners retain the autonomy to deliver client services (Greenwood et al 1990).
The use of ‘up or out’ does not preclude acknowledging the important role of the mentors and sponsors in the individual contributors’ careers. On the contrary, by recognizing on-the-job training, apprenticeship, and role modelling as valued ways of transmitting knowledge in the firm, from the more senior to the more junior members, aspects of career development can be more readily acknowledged and mastered.

Different practice groups may use ‘up or out’ and alternative roles in different proportions in their internal labor market structures. This flexibility would allow the practice group autonomy to deliver appropriate client service.
Research insights

How does this context shape the decision-making processes?

“I was told by my managers that I have to work better in the area of perception of my expertise and experience.”

Social construction of merit

It was striking to us that many of the promotion criteria discussed by our respondents, and even those available explicitly, state ‘recognized as’. In other words, expertise is measured by recognition and acknowledgment of a skillset. Not only in specialized areas very few people are qualified to measure other people’s expertise, but also the process largely relies on the social perception of one’s merits by others.

What does research have to say about this?

Cognitively demanding decision situations lead to reliance on shortcuts

Behavioral decision theory states that the more complex a situation is, the more difficult it is for people to make correct inferences, and the more likely they are to rely on shortcuts. For instance, in now classic work, Festinger (1950: 273) stated that “the less ‘physical reality’ there is to validate the opinion or belief, the greater will be the importance of the social referent, the group, and the greater will be the forces to communicate”, and the organizational scholar Perrow noted, “competence is hard to judge, so we rely upon familiarity” (1972: 11).

Managerial jobs in service sectors are a prototypical example of jobs in which performance (or future potential to perform) is difficult to evaluate (Pfeffer 1977). In these jobs, the criteria used for evaluation tend to be broad, to overlap significantly with criteria for social integration, and to lead to screening on the basis of fit with incumbent job holders (Jackall 2010; Kanter 1993). For instance, research shows that managers use early promotions and past positions, career moves, functional backgrounds, and perceptions of the career timetable as signals that guide subsequent promotion decisions (Forbes 1987; Lawrence 1990; Rosenbaum 1979).

Accountability mitigates the bias

According to experimental research, when decision makers know that they will be held accountable for their decisions, bias is less likely to occur (for a review of this literature, see Lerner and Tetlock 1999). This is because accountability motivates decision makers to process information and take decisions in more analytically complex ways, which guards at least somewhat against reliance on overly simple — and most likely insufficient — signals of fit.

Authors’ conclusions

- Holding decision-makers accountable for promotion decisions helps with the decision-making processes because it pushes them to reason in more analytically complex ways, working to reduce the possibility of bias.

- Other ways to enable more analytically complex decision-making processes are: enrich the way in which the information about the candidate is being collected and considered (offered in diverse ways, e.g., quantitative as well as qualitative; from different sources, e.g., internal as well as external; accounting for varying time frames, e.g., in the short run as well as...
When it’s a decision by committee, the challenge is to be recognized by the people with whom one does not work closely. How does someone seven degrees removed recognize my contribution?

devlopment over time) and enrich the way in which that information will be processed (e.g., by including people with diverse experiences and viewpoints in the decision committee, meaning not only from different specializations but also people with different professional and personal backgrounds, education, and visions for the future of the company).
Research insights

What intrinsic features of this context may pose particular challenges for women?

To increase retention of women, managers need to check in, make sure that they make adjustments — much better to have 80% of someone awesome who wants to work four days a week, than 100% of a mediocre banker.”

Cultural aspects of the workplace

Most of our senior respondents (male and female) spoke of ongoing difficulties attracting women, largely because of lifestyle and perceived lack of flexibility in the nature of the jobs, and of retaining senior women.

The culture is generally perceived as non-inclusive, and this goes beyond the informal socializing. Importantly, it seems also to be reflected in the poor training managers receive on how to manage their teams, notably on how to communicate about aspirations and how to develop and coach their subordinates. For instance, several female respondents pointed out that women are “typically not content with leaving it to chance; they want to know the criteria, work towards them, have a plan and be in control of their own careers”. At the same time, going in and demanding a promotion was seen as something very difficult — unnatural — to do by most of our female interviewees.

Finally, it was noted by most of our female informants, both junior and senior, that informal networks and relationship-building activities end up excluding women, not necessarily on purpose but because of the way relationships tend to be built (many respondents said that it is natural that people like and want to be with others like them). Women also report that a successful mid-career opportunity for a woman tends to be a function of an obvious / advertised vacancy or a new job opening rather than the work of a sponsor who wants that particular person to grow.

Solutions or strategies for coping with these aspects, as suggested by our respondents

- To increase retention of women, managers need to check in, make sure that they make adjustments to fit her needs.
- Women should step back and find common values with men to develop relationships. They also need to take advantage of the community and volunteering initiatives, but seek the more strategic ones (comparable to work-related stretch assignments).
- Finally, one idea was offered that possibly internal promotions work well for women in the early stages of their careers, but that changing firms is necessary at the more senior levels.

Authors’ assessment

A lot of advice is given to young women about what they should improve — be more confident, take more risks. But young men should also get advice — tone it down, pace yourself better, be genuine, be coachable.”

The objective test of the two systems would be to see the numbers on a one- to five-year horizon and whether the male / female promotion statistics are the same as the overall trading floor statistics — they should be the same, not skewed either way.”

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What does research have to say about this?

Work culture in the financial industry

Jobs in banking are generally considered to have strong masculine cultures. Based on survey data research, such cultures are typically associated with seven stereotypically masculine personality traits: competitive, daring, unexcitable, dominant, adventurous, stands up under pressure, aggressive, and courageous (Cejka and Eagly 1999). The focus on markets and money making within the finance sector instills an ethos of competition, risk taking, and dealing with high pressure, and accounts of work in finance usually emphasize the role of dominance and aggression in the culture of workplaces (e.g., Roth 2004). This culture goes together with an emphasis on equality, low levels of hierarchy, and use of informal processes to foster a strong spirit of teamwork that persist when former partnerships go public, e.g., Goldman Sachs, DLJ (Nanda et al. 1999; Donaldson 2002).

How these features interact with gender-specific communication patterns

Cultural norms of interaction influence how people talk to each other, what inferences they make, and, eventually, how they are perceived and rated by others. This is especially important in contexts in which external perceptions matter in evaluation and promotion decisions.

Research on communications shows that women are more sensitive to social cues in determining appropriate behavior than men are. For example, there is evidence from experimental negotiation studies that women are less likely to ask first, and that they are more sensitive to framing of situations, such that they are more likely to assume that the rules given are determining parameters (as opposed to suggestive starting points) for the subsequent negotiation between two parties. Specifically, research has found that there are types of situations in which women are disadvantaged in negotiators because of gender-specific communication factors (for a review of this research, see Bowles and McGinn 2005).

- The first situation is when there is ambiguity about the bargaining range and the appropriate standards for negotiated agreement. In such situations, people (both men and women) rely on past experience and preconceptions to fill in the blanks. The problem is that women’s past experience and preconceptions are likely to anchor them on a lower set of expectations than men’s. Also, they have different reference points: men compare with other men, women with other women. Laboratory studies have shown for instance that in hiring and performance evaluations, the more job-relevant information is available, the less likely it is that the worker’s sex will inform the evaluator’s judgment, and that women (as compared to men) expect less pay for equal labor and work longer and with fewer errors for equal pay, but only in the absence of clear pay comparison information. In situations with less ambiguity about the bargaining range and the appropriate standards for negotiated agreements, women do as well as men.

- The second situation is when gender is relevant and salient to behavior and performance expectations. There are several ways in which this can manifest itself in the workplace. First, in contexts that can be construed as competitive negotiations (value-sharing, such as asking for higher compensation or asking for promotion), prescriptive norms for behaviour are consistent with norms for appropriate masculine behaviors (e.g., self-, as opposed to communal, -oriented). In contrast, in contexts that can be construed as integrative (value-creating) negotiations, interactions rely on a mix of value-creating and value-claiming behaviors that do not contradict or conform either gender stereotype. Second, women do better when they ask on behalf of others then when they ask for themselves. For instance, when negotiating for someone else, women asked for 22% more on average than they would when negotiating for themselves. For instance, when negotiating for someone else, women asked for 22% more on average than they would when negotiating for themselves. This has been explained by reference to cultural norms that typically prescribe that women behave in other- (not self-) oriented ways. Finally, situations which activate the implicit stereotypes associated with gender can undermine women’s negotiation performance. Researchers suggest presenting the negotiation task in neutral (as opposed to gendered) language, which has been shown to improve women’s performance relative to men’s.
Women do better in difficult conversations when these are framed in an integrative- or problem-solving manner, relative to when they are framed in a competitive manner, and when neutral, as opposed to gendered language is used. Applying this to promotion discussions, presenting the process as ‘problem-solving’ as opposed to ‘contest’ is more advantageous for women.
Research insights

Are there consequences of the institutional pressure towards diversity?

It’s important to keep in touch with HR – and few people do. They are informed, they can work with you to develop your career. They are not influencers in promotion but they can be an advocate, put your name forward for committees and help you get relevant exposure.”

Effectiveness of diversity-related policies and initiatives

Many of our respondents noted the progress made towards increasing diversity (in particular, the presence of women) in the firms. This was especially clear to the respondents in the structured process, where more explicit effort is placed on making sure that the promotion process includes women in decision-making positions. Interviewees who are on the panels confirm that the topic is hotly debated but they are not aware of a situation where a candidate was pushed through because they were a woman.

Yet some remarks were made about processes that seem intended to help increase diversity but which may in fact end up reinforcing the old boundaries. For instance, formal mentorship processes may not reach their objectives if they separate women from the informal sponsorship networks from which men derive their support.

What does research have to say about this?

Impact of institutional factors on reducing the gender gap

Institutional factors, such as the internal oversight from personnel and legal departments, pressure from governmental legislation, and regulatory bodies monitoring against workplace discrimination have a real influence on the progress made towards parity (or at least proportional representation) of women across hierarchical levels in organizations. In particular, the ease with which information on career decisions can be obtained, the ambiguity of the assembled information, and the availability of a plaintiff, are all factors which diminish the likelihood of discrimination. There is substantial amount of evidence for this mechanism, at least in US-based research (e.g. Peterson and Saporta 2004, Dencker 2008).

This helps to explain for example why women sometimes enjoy a promotion advantage at more prestigious levels (top management), but not at the lower-management ranks: women's continued underrepresentation in senior management levels allowed firms to promote them at higher rate than men due to relatively lower visibility of such career shifts – “a policy of facilitating women’s advancement could be pursued with little detrimental impact on the promotion opportunities for men and, therefore, with little employee opposition” (Spilerman and Petersen 1999).

At the same time, occupation and industry factors mitigate effects of institutional pressures. A recent meta-analysis (Joshi et al 2015) shows that the percentage of men in an occupation and the complexity of jobs performed by employees enhanced the male–female gap in performance and rewards. For instance, in highly prestigious occupations, women performed equally, but were rewarded significantly lower than men. The only
factor that enabled women to reverse the gender gap in rewards and performance evaluations was a higher representation of female executives at the industry level.

Diversity-related initiatives in other professional services firms
McKinsey has included diversity of leadership styles in promotion criteria. Next, it hopes to introduce transparency into sponsorship; refine the ‘up or out’ promotion system to allow people more flexibility to stay in roles when they need that flexibility (at different stages of their lives); and create mechanisms for management to ‘have skin in the game’. (Barton, Devillard, Hazlewood 2015).

Authors’ conclusions

- To limit gender bias in managerial promotion, good levers are existence of legal rules, gender equity pressures (e.g., from other prominent players in the industry, professional associations, civic organizations etc.), and human resources management focused oversight in promotion decisions.

- Consider the multiplier effects of having more female executives in the industry.

"Clarity helps women more than men. Men who want to be promoted watch how other guys get promoted and emulate. Also if volunteering is among the criteria, senior women tend to do much more volunteering (even in an unstructured process where it does not appear to be as important for promotion). Men will not do such thing if it takes them away from producing revenue."

"We call it ‘women tax’ — women are doing all the volunteering to create visibility for themselves. Most volunteering positions are staffed by women. As if volunteering work was women’s work. Women likely don’t have the networks to create visibility and volunteer to create visibility."
Research insights
Do macro-economic conditions matter?

Some people will still see me as the intern who used to get coffee 20 years ago. To succeed one actually has to leave, build one’s career elsewhere and then come back - because the other bank has a completely different management structure and more lateral move opportunities. Why do I have to walk out the door? One argument is to get breadth, an understanding of a different market. But then why do organizations make it punitive for people to leave if they value the breadth of experience? Instead, they should be creating opportunities for ‘good leaves’.

Role of external career opportunities for internal promotion prospects

External mobility potential is very important. We heard that people have to be ready to change desks to be able to work on prominent deals, that they have to be ready to walk away, and willing to move to an empty seat even if it is not a dream placement.

This comes with two caveats.

- First, that this system indirectly encourages people to seek external opportunities. We were told that perceptions of who is most at risk of leaving include: a) those who wait without asking, and in the meantime are lured outside; and b) those who do ask, but do not get (enough of) what they are asking for. A system that requires active self-promotion - have to waive one’s own flag to be promoted - risks the flight outcome.

- Second, when external opportunities are diminished because of general economic circumstances, internal opportunities for advancement are also more likely to be constrained. The industry is under pressure and not growing: fewer and fewer MD positions available, people not leaving, industry shrinking and letting people go, people staying longer because they are being paid less. There is a lot of change and dislocation as old businesses are being restructured and new businesses (tech driven) appear.

Nevertheless, an alternative view is that opportunities still exist in this industry but they are different than what the traditional sales / trading / IB paths were, and it probably takes more effort to get to the top.

What does research have to say about this?

The relative bargaining power of employee vs. employer changes over the employee’s career and with economic conditions

High status firms attract very high ability workers at the beginning of their careers, but they risk losing them later on when these workers’ attractiveness on the external labor market increases (Philips 2001). A study of careers in investment banking in the US shows that after individuals have demonstrated their value in high status firms for several years (five or more years according to the results), lower status firms are ready to lure them away with promotions and higher compensation (Bidwell, Won, Barbulescu and Mollick 2014). Thus, to
retain these increasingly valuable workers, high status firms offer relatively higher compensation than lower status firms to those individuals who choose to stay.

At the same time, outside opportunities depend on economic conditions for the economy and industry. For banking, periods of deregulation and industry growth are correlated with an increase in the relative bargaining power of workers vs. employers, whereas industry contraction sees reduced external mobility and lower bargaining power for employees. Interestingly, this has real consequences for when gender parity gains are more likely to be made — and lost. A study of over 25 years of longitudinal personnel records from a Fortune 500 manufacturing firm showed that the firm did respond to gender equity pressures to promote women when afforded the opportunity to do so (Dencker 2008). Overall, however, women’s promotion advantages were often short-lived, increasing in periods after reductions in the work force and reorganization, perhaps because of increased scrutiny over the company during those times or strong momentary oversight by HR managers, but reverting to parity soon thereafter.

Authors’ conclusions

- The macro conditions may take some of the bargaining advantage away from the individuals in favor of the firms; firms may find it easier to offer increased compensation or promotion but not necessarily both.
- Progress made on diversity can be easily lost after the firm goes through unfavorable economic conditions.

“Moving managers around allows things to be done differently. It takes time to break the old habits. People may be doing the same jobs on the desk but the environment has changed. There is nothing more disheartening than the feeling you are stuck. It’s a particular problem for Canadian banks because there isn’t a lot of movement in this industry. In the past 10 years mobility has been reduced because of the way the pension plans and other compensation plans work (punitive deferrals) – this is a story of a two-sided coin. Banks respond by tying people even more and making it even more punitive to leave – when people maybe don’t want to leave but want more development and a career path. Then it’s becomes a lifestyle choice work vs bonus. Banks say they don’t like that mentality but they themselves created the problem The promotion model supports being tied to biggest deals, and then it’s about individual contribution and hoarding of accounts. Those behaviours come out of people who fail to see opportunities within the firm but because of other reasons feel that they cannot leave.”
Methodology

The mechanics and context of the interviews

In the first part of our study we reconstructed the promotion process based on interviews with senior industry participants (Managing Directors and senior Directors who aspire to be promoted).

How did we learn about promotion processes?

We have reconstructed the process of promotion to senior titles based on:

- The respondents’ own experience of promotion.
- Their broader knowledge of the process, in turn based on:
  - What they know about the promotion experience of colleagues.
  - What they learned from senior managers when strategizing about their careers and researching promotion opportunities.

In addition, a few of the respondents participated in the promotion process as members of the panel or committee that reviews the candidates and makes recommendations or promotion decisions. Almost 20% of our sample participated in the promotion process in this way, and it is worth noting that half of the sample was actively involved in the recruitment process in their firm, which offers additional points of contact and observations.

It’s important to note that the reconstruction reflects personal experiences and observations of the participants in the process, rather than corporate intent and design of such process. Our conversations with the respondents were open-ended, and at times discussions diverged from the original set of questions we had prepared.

The material obtained during conversations has been aggregated thematically in the Appendix, with an intent to present a picture of the industry rather than illustrate differences, if any, among the individual banks.

Who were the respondents?

We targeted Toronto-based employees of capital markets businesses of the Big 5 Canadian banks, but due to a convenience nature of our sample about 20% of our respondents had also had some investment banking or trading floor-related infrastructure experience, and some had worked outside of Canada. Few also had limited corporate banking experience.

All of the respondents have substantial experience in wholesale banking from at least one of the Big 5 banks. Forty percent had worked for more than one of the Big 5. Almost 30% had also worked at a large US investment bank.
By title and seniority of experience
- Thirteen MDs, nine pre-MD.
- Four participated in the D or MD selection process, and seven in recruitment.
- Eleven manage a team.
- Nine were hired at their current title by the bank they work at in the last two to six years. Thirteen experienced a promotion to the current title at their current bank anywhere from 2015 to 2009, and a couple of people as far back as mid-2000s. Some experienced multiple promotions at the current bank.

By gender
- Thirteen women, nine men (41% of our sample are men).

By institution
- Thirteen worked at just one Big 5 bank, and nine worked at two or more institutions.
  - Of those 13, two had worked at one or more non-Canadian banks, six had worked in the industry in other firms than the Big 5, and five had also worked outside the banking sector (the numbers do not add up because some people worked in multiple segments).
  - Of the nine, six had also worked at one or more non-Canadian banks, four outside the industry, and six in other firms in the industry.
  - Slicing it differently, 13 worked only at Canadian banks. Of the remaining nine, six worked at just one other non-Canadian bank.
- Those respondents with work experience outside the banking sector worked at specialized firms (e.g., independent research, electronic trading, brokers, independent dealers), on the ‘buy-side’ (investments), or at information providers (such as Bloomberg). Work outside the industry might have been in accounting or engineering.

By area of expertise
- Twelve work in FICC (of which one had also worked in equities), seven in equities (of which two had also worked in investment banking), two in trading floor-related infrastructure, and one predominantly in investment banking.

By geography
- Thirteen worked only in Canada. Of the remaining nine, seven had also worked in New York (of which three had additionally worked in other locations), and two in Asia.
Some industry jargon and abbreviations used in this article

- ‘Big 5’ refers to the five largest domestic banks.

- A ‘bank’ refers to ‘wholesale bank’. Wholesale banking activities include capital markets activities (fixed income, currencies, commodities, or ‘FICC’) and investment banking (‘IB’), as well as corporate banking, and may include certain related infrastructure and business management operations. Our respondents sometimes used this term interchangeably with ‘the firm’.

- Even though the organizational units within wholesale banking are similar across the banks, terminology used in functional titles varies by bank. We will use the following. ‘Group head’ refers to the head of the key units, such as investment banking, corporate banking, capital markets. We will refer to the heads of individual businesses within these key units as ‘LOB heads’ (line of business). Depending on the institution, within capital markets these lines of business tend to be defined by product (for example, cash equities, equity derivatives, fixed income, fixed income derivatives, money markets, currencies, commodities, securitization), or by function (sales, trading, structuring, research). We also use the term ‘direct manager’ or ‘manager’ to refer to the promotion candidate’s direct reporting line.

- Typical title hierarchy is: 1) analyst, 2) associate, 3) Vice President (called Director by some banks), 4) Director (called Executive Director by some banks), and 5) Managing Director. The focus of this study is on the latter two titles, particularly the Managing Director title. In this article we use the term ‘Director’ (‘D’) when referring to the title just below the Managing Director (‘MD’).

- ‘P&L’ stands for profit and loss and generically refers to the financial results that an individual produces.

- ‘HR’ is used to refer either to the Human Resources Department or to people-related initiatives and activities (recruitment, training, talent management).

- ‘360’ refers to a third-party administered co-worker feedback tool.
References

The works are listed in the order in which they appear in the report.

Are firms getting the people with the necessary skills at the top?


Are firms getting the right trade-off in terms of flexibility and cost of their talent management systems?


What are the dimensions of career progression for the individual contributors?


### How does this context shape the decision-making processes?


### What intrinsic features of this context may pose particular challenges for women?


### Are there consequences of the institutional pressure towards diversity?


**Do macro-economic conditions matter?**

