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Key Finding

Men benefit more from their social networks than women, in terms of both their objective performance and their subjective evaluation by others.

Business Application

Social networks, in addition to performance, is key to career success. Women should not under estimate the power of networks and should learn from men to cultivate and capitalize on their networks.

The gender gap, which refers to the under-representation of women in certain contexts, is in fact a unique situation in business, especially in the top echelons of the business world. In higher education, labour force participation or professional fields like law and medicine, women have either surpassed men or are closing in on them. Given women's significant advances in education, why are they not succeeding more in business?

As an economist, I believe there is no reason to mandate that women occupy 50% of all posts, and that it is counter-productive to fall into the political correctness trap and promote women for the sake of having the right diversity chart. Doing so will only create tokenism and devalue women's success. Nobody wants to be labelled a beneficiary of an affirmative action policy.

But given women's strides in almost every other social arena, the question that begs asking is why they persistently lag behind in business. My hypothesis, tested and supported by my research on Wall Street analysts, is that success in business requires much than hard skills, which women have; the key instrument is social networking and men are better than women at capitalising their networks.

I focused my research on Wall Street analysts not only because Wall Street is a notoriously male-dominated environment, but also because it is a fiercely competitive labour market that only the most competitive women can enter. In my sample, more women than men have Ivy League or advanced degrees. An additional reason to focus on Wall Street analysts is that their career success depends not only on their objective performance – the accuracy of their earnings estimate, or the value of their buy/sell recommendations – but also crucially on institutional investors voting them All-Star Analysts.

I measured networks as alumni connections (attending the same university) between an analyst and a board of directors at a firm and found that men benefit more from their social networks than women, in terms of both their objective performance and their subjective evaluation by others.

Why does this happen? Social networks are perhaps the most important channel of the information transmission, especially non-verbal, subtle information signals. Analysts' performance depends on collecting and interpreting information. Therefore, being able to tap into a social network gives an analyst an edge. Investors who cast the vote for All-Star Analysts seem to think so as well, as they reward well-connected male analysts. Interestingly, female analysts are rewarded not for their connections but for their proven performance track records.

Strikingly, at first glance, there appears to be no gender gap among Wall Street analysts: female analysts are as likely to be voted All-Stars as their male colleagues. But my results highlight the fact that the factors driving success are not entirely the same for men and women – men are able to benefit more from their social networks.

These findings have broader implications about the persistent gender gap in business and the fact that there are so few women at the top. Climbing the corporate ladder requires both stellar performance and favourable subjective evaluation by others. If men benefit more from connections on both fronts, as my findings suggest, their advantages can persist and even increase as their careers progress.

Read more: Schoenberger, C. R., (2015), “A Professor Finds Gender Bias on Wall Street”, *Wall Street Journal*, 3 May.

Fang, L., & and Huang, S., (2017), Gender and Connections Among Wall Street Analysts, *Review of Financial Studies*, 30(9), 3305–35.

Lily Fang is an Associate Professor of Finance at INSEAD. She teaches corporate finance, capital markets, valuation, private equity and entrepreneurial finance in the MBA and Executive Education programmes. She was awarded the prestigious Smith Breeden prize in 2009 for her work on the relation between media coverage and the cross-section of stock returns received.

Research interests: information markets, i.e., financial intermediation, financial institutions, and the media.