



Employees Say: “Glad I Survived the Recession Employed, Now I’m Leaving!”

INTRODUCTION

As the investment industry begins to emerge from the wreckage of The Great Recession, employees at investment firms are evaluating their career strategies. In doing so, they are creating potentially unforeseen implications for future growth opportunities for those firms.

While employers are emerging from the downturn focused on what products and new markets to cater to, their attention to external market factors is blinding them from recognizing a major impediment to their future success:

Turnover.

Has the recession and its accompanying high level of unemployment caused employer complacency?

Are firms mistakenly believing that employees will not leave due to lack of employment opportunities?

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Kathy Freeman Godfrey is the founder of the Kathy Freeman Company, a nationally recognized, retained executive search firm, catering exclusively to senior sales and marketing searches within the investment industry. Sensing a level of unrest among her industry colleagues, Kathy embarked on a study in December 2009 to determine the likelihood of senior level executives making a change from their current roles going into 2010. She polled a wide range of employees representing institutional sales and distribution leadership, as well as those targeting the high net worth and family office segments.

The survey results send a clear message.

Firms within the investment industry face a substantial risk of turnover going into 2010 within their senior sales and marketing ranks.

The unexpectedly high percentage of survey participants contemplating change in 2010 leaves firms exposed to a talent drain that will further exacerbate their recovery process and hinder an affected firm's ability to compete in a post-recession battle for the consumer's share of wallet.



SURVEY DETAILS

On average the survey respondents possess between 16 – 25 years of tenure within the investment industry. They are highly trained and highly paid executives that are currently employed.

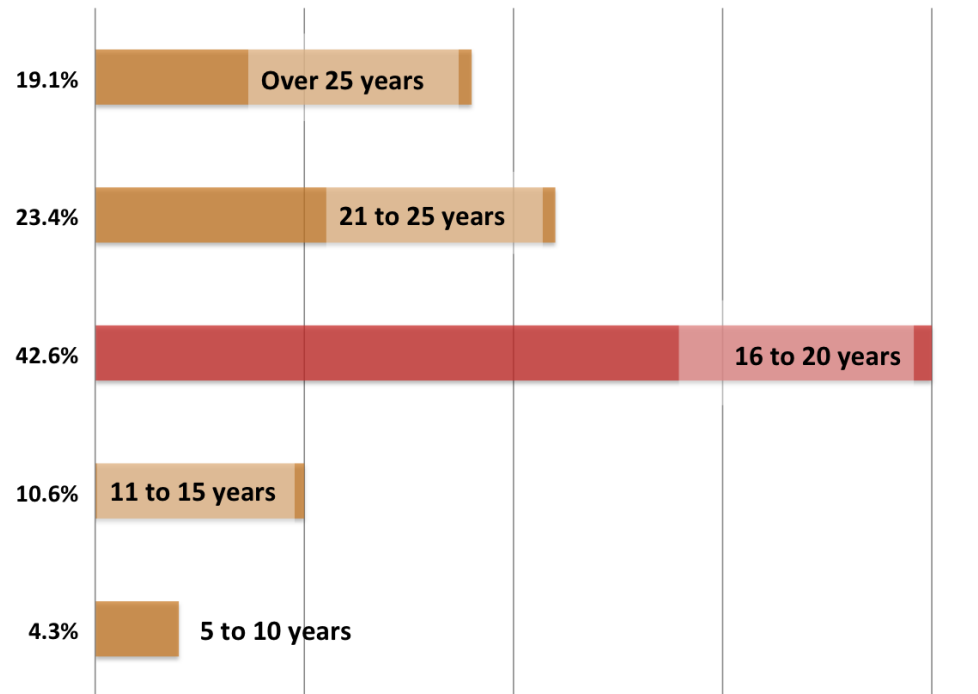
The positions they hold are varied.

Representative titles include:

- Director, Consultant Relations
- Senior Vice President, Sub Advisory
- Vice President, Institutional Sales
- Director of Strategy
- Partner
- Senior Vice President, Wealth Advisory
- Managing Director, Sales

Products represented by the respondents were primarily separate accounts or mutual funds.

Investment Industry Experience

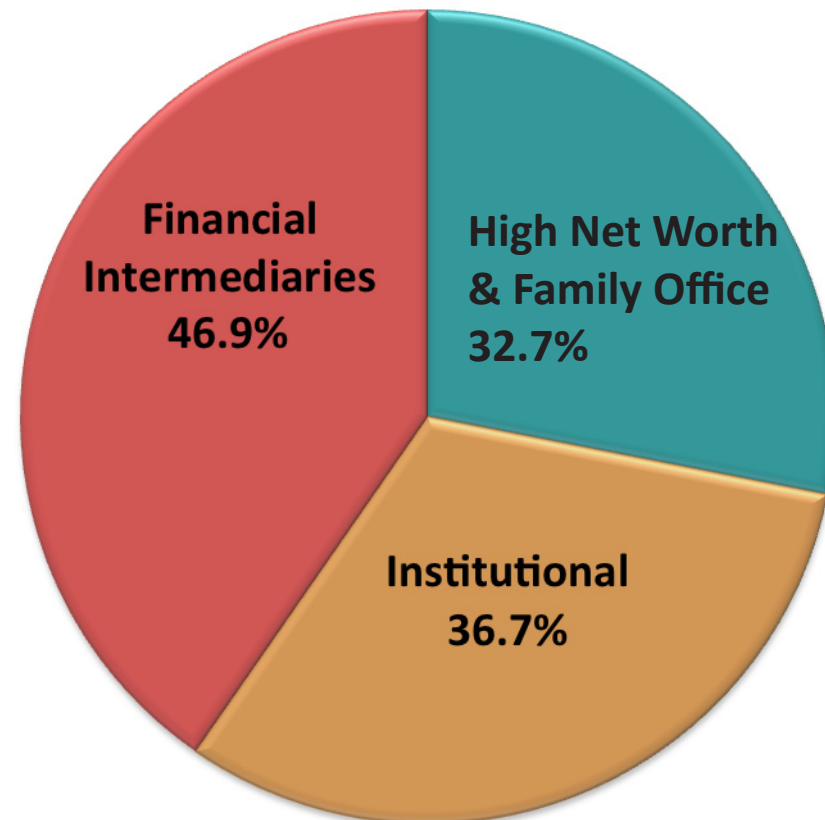




The survey was sent to executives covering 3 distinct areas:

- Distribution through the intermediary buying audience
- Institutional sales
- Sales to high net worth and family offices

Respondent's Target Audience





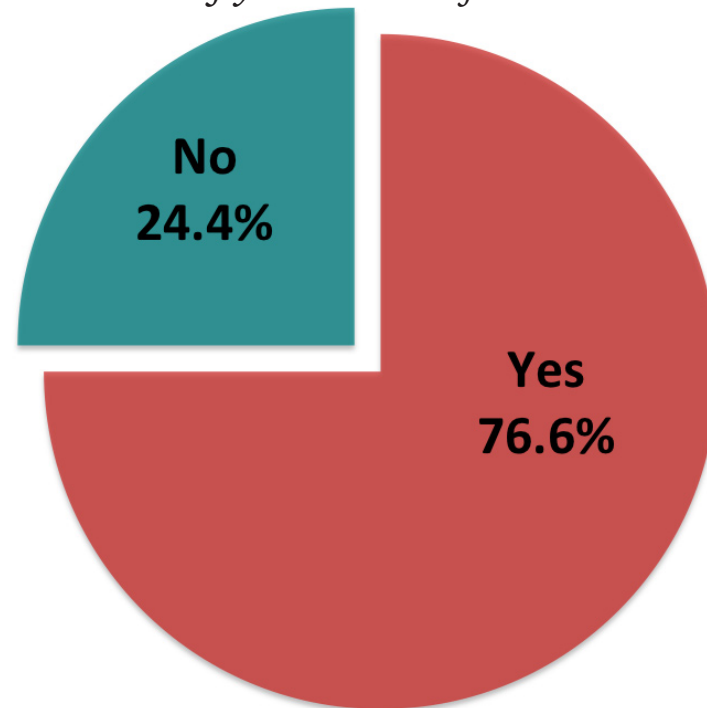
EXECUTIVE SUMMARY

While the study evaluated a number of satisfaction perspectives, two main themes emerged that should cause senior leaders significant concern.

Surprisingly, over 75 percent of survey respondents are considering making a change from their present firm in 2010.

Also alarming is that the unrest is not localized to the most tenured employees in these firms who might be looking for greener pastures to enhance their careers. In fact, the most potentially damaging statistic for employers is that 55% of these senior executives have been at their firms for less than 3 years.

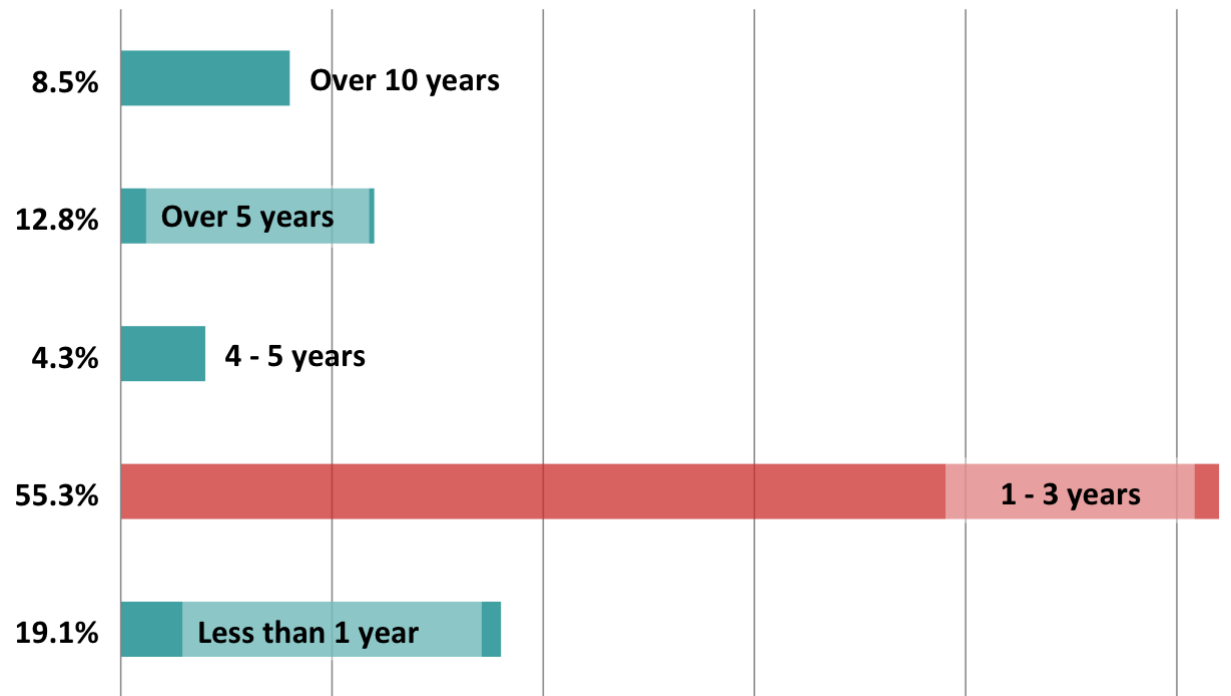
Would you consider an opportunity outside of your current firm?



This early stage of an employee's tenure is the time when new hires start getting comfortable with their offering, have accessed their client database, developed their pipeline and are becoming profitable revenue generators for their firms. To lose them at this stage is especially damaging and will incur tremendous cost to replace them.

Given the volatile combination of these two major findings, financial service firms should consider this a wakeup call to the potential instability of their most important asset – their people.

Tenure at Current Firm





DETAILED FINDINGS

The study yielded two significant findings:

Issue 1- Compensation:

The industry has taken a hit to its bottom line, and the individual employee has as well. Yet it's not the empirical level of compensation that has respondents dissatisfied. Their displeasure with compensation, derived from both the study results and subsequent follow up discussions, revolves around the formulas that are in place for compensation.

Capped Compensation: Taking a historically variable formula and replacing it with a targeted fixed range of available compensation proves frustrating for performance-based employees. Their motivation for being gauged as the best and being paid better than the rest is not congruous with this compensation model.

Lack of Downside Protection: Lack of coverage, or a net on the downside, has been causing other issues among top performers. If a firm isn't willing to acknowledge and provide some downside coverage, perhaps in a draw formula, dissatisfied employees are going to be compelled to look externally.

Decreased Commissions: Some firms are seeking increased profitability by decreasing commissions to their sales organizations. In the recent market environment which has made selling so difficult for a wide range of product and service offerings, this equates to making less while working twice as hard. It is perceived as a tremendous de-motivator for those on the front lines.



Scrutiny on Executive

Compensation: Increased scrutiny on executive compensation has produced a greater emphasis on long-term equity as opposed to annual cash compensation. For someone who is highly leveraged, it could provide the necessary catalyst and force a change in firm.

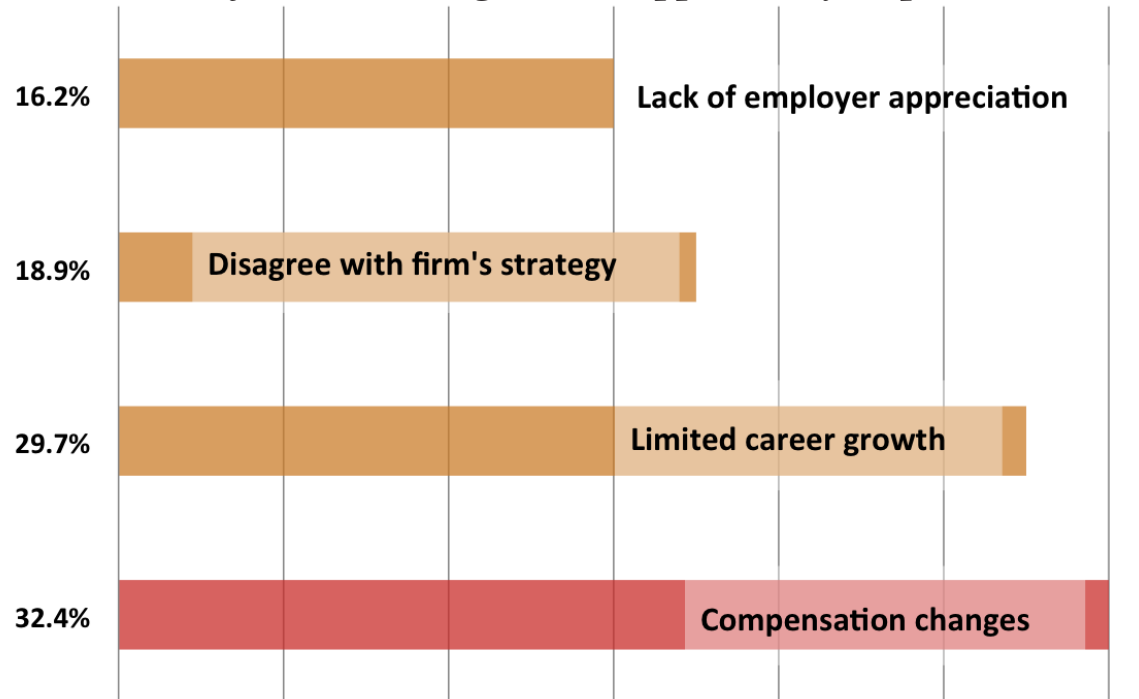
Issue 2 - Lack of Opportunity:

The second most prevalent element of employees' dissatisfaction with their firms comes from a perceived lack of opportunity to grow their careers.

Throughout the tremendous growth of financial services over the last 15 years, senior level employees counted succession through the ranks as a reward for a job well done.

The formula was time-tested and worked well. Employees' goals were to achieve and get promoted as those in the chairs ahead of them retired or executed their plans for moving into a board seat.

Reasons for considering outside opportunity (top 4 answers)





This paradigm appears to have shifted.

Over the past 18 months, senior leadership has lost a tremendous amount of its personal net worth and as a result has put its own plans for retirement or career changes on hold. As a result, previously discussed succession plans are no longer relevant.

If this is the case, firms should begin discussions with those individuals who were in the line of succession to see what other options might exist to enhance their careers, either educationally or professionally, in order to keep them engaged and loyal to the firm.

Yet all opportunity is not lost.

According to conversations with senior leadership within the top ranks of the investment industry, The Kathy Freeman Company has found that 2010 will most likely bring a continued shift in business strategy for asset management firms.

As firms continue to fine tune their recipes for success, there will be an ongoing albeit subtle shift in the chairs at the senior leadership table, thus opening up limited new opportunities for those whose strong performance is complemented with strategic capabilities.

The pressing question becomes whether firms have the insight and where-with-all to get their most valued players to stay in place while they define their new direction, or whether they are vulnerable to losing their best people.



POTENTIAL SOLUTIONS

What can firms do to retain top talent in light of decreasing compensation and the perceived lessening of employee opportunity within their organizations?

The dissatisfaction measured in the survey doesn't dictate a "one size fits all" solution. Rather, a sampling of solution thought-starters will help efforts to jump start discussions about this important topic.

Frequent, candid, two-way communication is critical. It's a time-tested and often overlooked solution that must have its renewed place in the consideration set.

In addition, firms that will thrive and retain their strongest contributors will have to be more attentive to building a strong employee-centric culture that values and continually reinforces the importance of people as a cornerstone to the firm's success. Building employee loyalty and a stronger culture in the firm takes a commitment to communication.

Specific recommendations for stemming the approaching tide of employee defections are:

1. **Appreciation:** Not unexpectedly, employees might be burnt out from long hours and less pay, a common side effect of recession fatigue. If that's the case, a low-cost method to counter stirring dissatisfaction is to start showing more appreciation.

Simple solutions include buying employees lunch, showing empathy through personal conversations, and acknowledging that the firm's leadership appreciates how much time they've invested, and how difficult things have been.

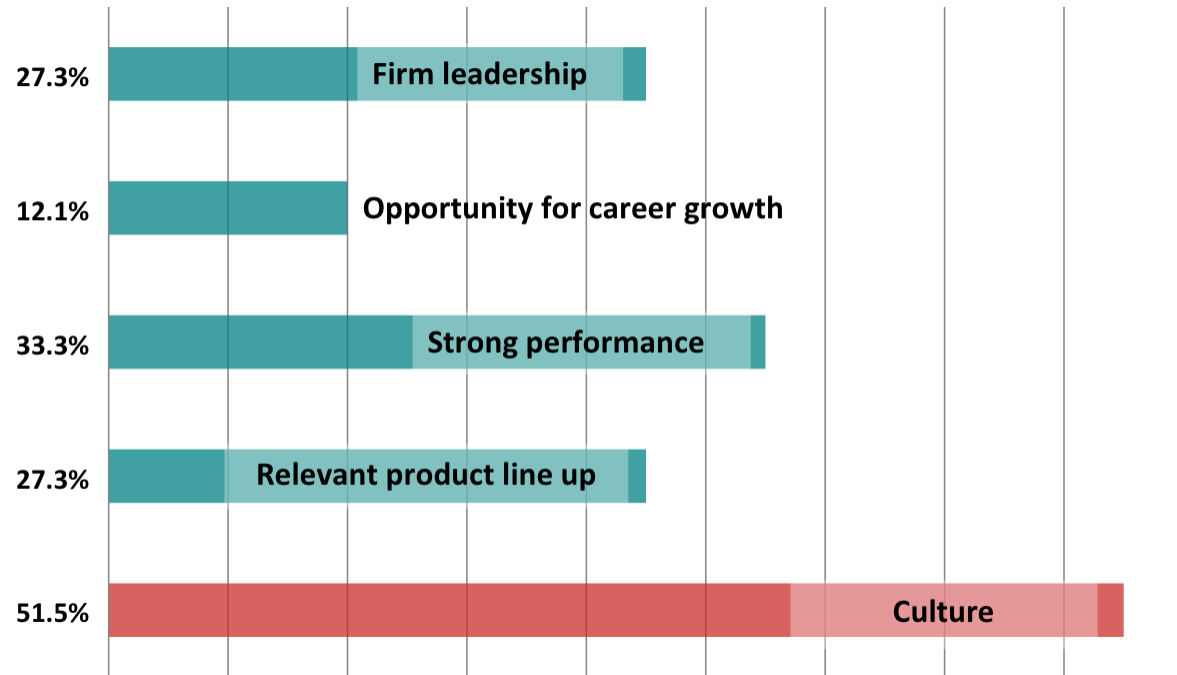
Include in the discussions with employees, regardless of their level, what the company's updated vision is and reinforce that each employee's participation is a critical part of overarching firm-wide success.

2. Survey: People want to express their opinions, whether positive or negative, so give them the opportunity. Either verbally or in written format, allow employees to express what is at the root of their highest levels of frustration. It may not be the long hours.

It may be passion for a new product that they feel was discounted by one of the firm's executives. It may be the belief that the best mechanism for the firm's success is a new ad campaign or a new target market. If employees are getting hammered by the firm's clients because the firm isn't offering the right solution, no doubt they are further frustrated if their ideas aren't garnering any attention.

Importantly, senior leadership must find a platform to respond to this valuable feedback. Town hall meetings, group lunches, or for larger firms, broadcast messages tackling the issues, are very powerful.

What do you most appreciate about current company?





3. Reevaluate Fit: Many firms hired new employees prior to the downturn for one role, then unceremoniously moved them into another position when times got tough. Companies certainly thought they were doing the right thing by adapting to market conditions and saving their employees from being laid off. While this is true, coming out of the downturn it makes sense to re-evaluate these employees for their satisfaction regarding the fit of their existing role. Take the time to see if they are compelled or engaged by the changes to their position.

If not, see if there is another role in the firm or additional training that is likely to increase their satisfaction, therefore increasing the likelihood of retaining them within your organization.

4. Improve non-cash benefits: The shifting paradigm in the investment industry is that with decreasing compensation comes the necessity to be attentive to alternative components that can work to increase employee satisfaction and employee engagement. Below is a sampling of ideas that include winners from Forbes Magazine's "List of Top 100 Companies to Work For." The ideas come from firms outside of financial services where high cash compensation has not been a standard benefit.

- A top management consulting firm achieves high employee satisfaction through Flexible Work Arrangements. This firm offers flexible work options that encompass job sharing, part-time employment, and responsive scheduling for full-time employees so they can meet personal, family, educational, or community responsibilities.
- A top technology firm offers five paid days for volunteer work, \$11,390 adoption aid, and autism coverage.

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- A high tech firm offers massages, oil changes, dry cleaning, washing machines, on-site doctors, etc. While most of these perks aren't free, the stunning array of conveniences that are offered to the firms' employees, which are often subsidized, are perks that few companies can match.
- A top regional healthcare firm offers free yoga classes to its employees to decrease stress levels.
- A privately held, not for profit, educational firm focuses on the family by creating and contributing to a children's college fund for its employees.
- A major law firm offers world-class benefits to staff and attorneys, emphasizing family benefits. These benefits include 18 weeks paid leave for maternity and adoption, \$5,000 for adoption fees, \$30,000 for fertility services, free onsite fitness center, and on and off-site child care.



CLOSING STATEMENTS

While it is apparent from this market survey that the investment industry is vulnerable to an increased probability of turnover going into 2010, we have identified numerous action items for companies to consider implementing to counter this trend.

The time is right.

It is time for executive leadership to be attentive to creating employee-centric cultures that reinforce the importance of, and the value for, their people.

As it pertains specifically to senior sales and marketing professionals in the investment industry, it is an imperative to build up their morale and their loyalty.

While it is safe to assume that in the past this group may have been less attentive to the culture or benefits that their firms offered, today's challenging market environment and decreasing compensation is creating a new opportunity for firms to re-engage them on another playing field.

Kathy Freeman Company believes that senior leadership would be remiss not to monitor the deceptively "still waters" that appear to be running through the employee ranks at their firms.

What may start as a trickle of defection can, if left unattended, become an unintentional tsunami of change.

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About Kathy Freeman Company

The Kathy Freeman Company, founded in 1992, is a nationally recognized retained executive search firm which is focused on assignments exclusively for sales and marketing executives within the investment industry. Kathy offers her clients a unique perspective within this niche market, having worked throughout the industry with asset managers, wealth managers, private banks, trust companies, service provider organizations, distribution companies, and investment technology firms.

Within the field of executive search, Kathy also plays a leadership role in the IACPR, The International Association of Corporate and Professional Recruitment. She serves both on the National Conference Planning Committee as well as the Small Search Firm Roundtable Forum.

For more information, visit www.kathyfreemanco.com.