6th Annual Executive Survey

The Talent Class of 2015: They Want It All

How to Engage Top-Tier Talent in a Fiercely Competitive Market

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Kathy Freeman Company
Executive Search for Financial Services

Synopsis

2014 was a banner year for retaining top-tier sales and marketing executives in the investment industry, but attracting talent in 2015 will be more difficult than ever, according to Kathy Freeman Company's 6th Annual Executive Survey. To engage senior talent, employers must actively motivate them to consider a change. Because it is a sellers' market, employers must be prepared to be more aggressive and creative than they have in years past.

Executive Summary: The Imperative of Putting Together an Outstanding Opportunity

For employers, the cumulative effect of the five-year bull market is putting a smile on almost everyone's face. Investment industry executives are earning more, the job market appears bright, and employee satisfaction is on the rise. Firms are investing in new offices, technology and products.

There are plenty of good reasons to be upbeat. The S&P 500 closed 13% higher in 2014, and over the past five years, the S&P 500 is up 85%. GDP in the third quarter of 2014 grew 5%, the highest annual growth rate in 11 years. If you're in the investment business, it doesn't get much better—except if you need talent to grow your business.

Top Findings 6th Annual Executive Survey

- Most Executive Talent Stayed Put
- Compensation Rose Nicely in 2014
- Equity Remains King
- The Job Market Heated Up
- Leadership is the Catalyst for Attracting and Retaining Top Talent

Five Key Trends

The 6th Annual Executive Survey identifies five key employment trends and offers recommendations to address these findings. Each year, the data highlights the challenges and opportunities that employers face in attracting and retaining senior talent. The interpretation of the data is informed by our ongoing retained search work across the country.

Among the key conclusions in this year's report: 2015 will likely be a very challenging recruiting year, particularly in light of the continued talent shortage in 2014. Last year was the most difficult 12-month recruiting period since we started tracking this data six years ago. In 2015, the recruiting advantage may finally swing back to the larger firms that have the resources to offer the bigger jobs at more compelling compensation levels.

Whether the firm is large or small, one consistent theme that emerged in the data, as well as in our conversations with candidates, is a perceived leadership gap. Many participants clearly expressed a strong desire for their leaders to lead more effectively.

The bottom line is if your business plan includes hiring, the good times should be tempered by reality: Offers in 2015 must meet higher expectations. Executives this year want it all—more responsibility, career growth, a synergistic cultural fit and highly competitive compensation. Without a complete package, they probably won't make the move.

Survey Methodology

Kathy Freeman Company's 6th Annual Executive Survey was conducted over a six-week period during Q4 of 2014. Investment industry leaders across the nation, personally selected by Kathy Freeman Company, responded to the online survey. Requirements for inclusion in the study are currently employed executives with an established career in a senior sales, marketing, or client-facing capacity within financial services. Over 67% of those surveyed have more than 20 years of experience in the financial services industry. The seniority of the survey respondents offers a unique window into the industry—unlike other research. The participants represent firms in asset management, wealth management, alternative investments, private banks and trust companies, and service providers to the investment industry.

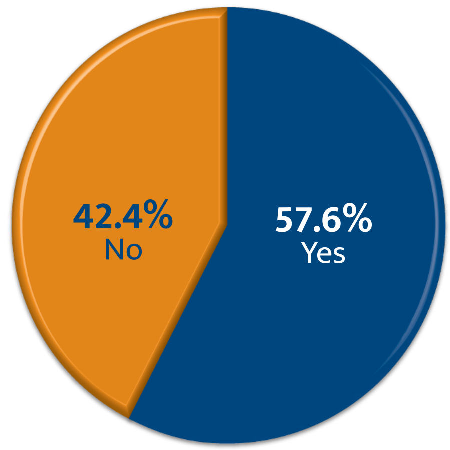
Finding No. 1: Most Executive Talent Stayed Put

In 2014, 82% of the executives surveyed stayed with their firm—an extraordinarily high level of retention due to an enhanced level of satisfaction in their current role. In fact, fewer people changed jobs last year than any other time since we began tracking this data point in 2009.

Respondents cited two overriding reasons for remaining with their current firm. First, they were able to make a positive contribution to their firm. Second, compensation remained attractive given the growth in the capital markets. The small minority who did leave cited dissatisfaction with their current job or their firm's lack of leadership.

Despite the increase in job satisfaction and the relatively small number of departures to another firm, a strong 58% of this year's participants said they would still consider a new opportunity in 2015. Their comments, however, indicated only a passive willingness to consider a change compared to 2009 when survey respondents were overwhelmingly motivated to make a move.

Would you consider making a move to a new firm in 2015?



For an employer, that is both the good and bad news—good for those who can offer highly attractive opportunities accompanied with strong offers, but troublesome for the smaller firms with high-growth ambitions and limited resources to compete. It can also mean a year of increased consolidation if smaller firms can't attract the talent they need to grow.

Recommendations

No. 1: Compensation Is King

A company's highest priority should be locking in its high-performing talent through compensation plans that offer rewards over the long term. Individuals who have increasing levels of compensation through trailers, unvested equity, or other recurring revenue streams are much less likely to be personally drawn into a dialogue about a new role outside of their current firm. These compensation programs keep an individual focused on building their own wealth in tandem with their company. However, firms need to think carefully about their equity participation strategy. Firms attempting to transition individuals from a cash bonus strategy to strictly an equity award, with a multi-year vesting and without employee buy-in, may inadvertently increase turnover instead of improve retention.

No. 2: Recognize the Importance of Being a Strategic Team Player

This year, firms will need to demonstrably acknowledge the contributions of their top talent. One of the most frequent complaints we hear is that a firm doesn't fully appreciate or utilize all of the skills of its top-performing people. Based on our assessment work conducted with candidates during searches over the past 18 months, it's clear that top performers want new projects and responsibilities. To motivate your existing team members, engage them in direct discussions that encompass stretch goals. It's essential for firms to develop new ways for innovative interactions between colleagues and ensure that executives feel empowered to achieve the firm's strategic goals.

What They Said

"I'm happy at my current firm but do not rule any opportunities out."

"I'd always consider, but it's highly unlikely I'd be sufficiently enticed."

Finding No. 2: Compensation Rose Nicely

Sixty percent of respondents said their compensation rose in the past year while 30% said it stayed the same. Only 10% saw compensation decline, but this appears to be the trade-off for an increased equity position. Overall, 2014 was a very strong year for compensation. The double-digit increases in compensation and the willingness to accept equity are very bullish signs for 2015.

It's important to note that the executives who participated in the annual survey likely have highly leveraged compensation packages that are predicated on performance. Increased compensation among respondents in 2014 implies a correlation between a rising market, enhanced investment performance and highly motivated talent looking to maximize a window of opportunity with their buyers.

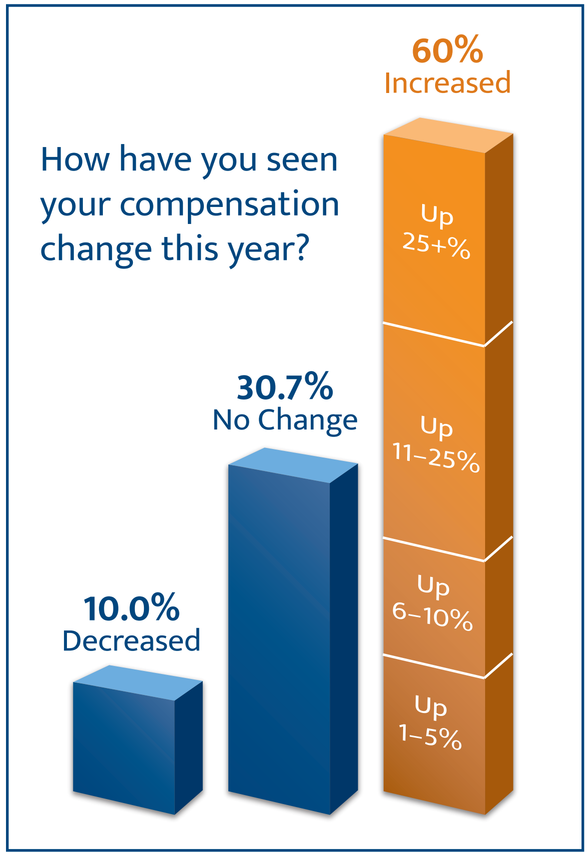
Recommendations

No. 1: Be Prepared to Pay Up for Talent

In 2015, it's going to take a significant package of compensation—salary, variable (either bonus or commissions) and equity—to secure new executive talent. Most will require a double-digit increase in compensation as well as some form of equity.

No. 2: Be Creative

If you work for a smaller firm or have difficulty offering a competitive compensation package, then be creative. Articulate the importance of the position to the firm's overall success as well as the positive impact it will have on that individual's career. There are still highly talented professionals who are motivated more by career satisfaction and growth opportunities than compensation. Be warned, however. This year in the land of plenty, it will be much harder to find people seriously willing to consider a new opportunity.



What They Said

"Base compensation and target incentives moved.
My actual take home was much higher due to restricted stock units which vested this year after being granted three years ago and have appreciated greatly since then."

"The bonus component of my compensation increased as a result of strong company results and relative peer performance."

Finding No. 3: Equity Remains King

Equity continues to be a top priority for executive talent. Sixty-three percent said equity was more important in 2014 than it was five years ago.

With the financial markets rising, candidates have a strong desire to benefit from the increasing value of their company. Even if a firm isn't publicly traded today, candidates are well aware that a liquidity event in the future is possible, especially given the success of many financial IPOs in the past year.

Recommendations

No. 1: Think Equity When Preparing an Offer

Include equity in a compensation package whenever possible. Without an equity component, employers are likely to be at a competitive disadvantage, all other factors being equal.

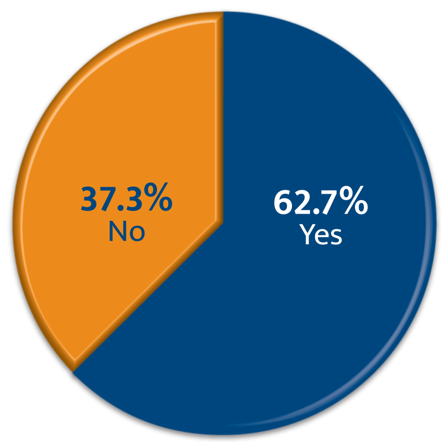
No. 2: Share the Wealth on the Upside

In the absence of equity, create a profit-sharing plan that demonstrates the firm's commitment to sharing the upside of the business. A profit-sharing plan, like equity, motivates outperformance in the good times and promotes persistence and tenacity in difficult times.

No. 3: Show the Way to the Equity Promised Land

If a firm isn't able to offer equity up front, it's a good idea to outline the path for equity ownership going forward. Be specific in the offer letter.

Has equity become a more important priority to your total compensation package today than it was 5 years ago?



What They Said

"Equity was always a high priority. It is, however, probably a more valuable component now due to the run up in corporate share price over the past 14–16 months."

"Equity has become more important, and it now represents a greater component of my compensation."

"I would take a 50% reduction in compensation to own equity."

Finding No. 4: The Job Market Heated Up

Seventy-six percent of respondents said the job market was either "slightly better" or "much better" in 2014 than 2013. The optimism is due to the industry's now full rebound and the meaningful gains in compensation many experienced last year.

Another sanguine indicator: 82% expect their firm to do more hiring in 2015. When rating their firm's recruiting capabilities, 85% said their company's ability to attract talent was "good" or "very good." This points to robust confidence in the marketplace, but as we noted earlier, it can cut both ways in trying to recruit talent.

When executives were asked to specify the biggest challenge in attracting terrific talent into their firms, 24% indicated that their firm wasn't paying sufficiently, while 23% referenced a critical shortage of available talent.

Recommendations

No. 1: Get Real

Firms should set realistic expectations about the requirements necessary to recruit talent. Have a frank conversation early in the interview process about a candidate's views on compensation and his/her motivation to make a job change. Our data found that 58% will "consider" a change. In actuality, most have only a tepid interest in making a move to a new firm. This observation is based on respondent comments in the survey and is confirmed by our direct experience talking to many candidates. As a result, be wary of investing too much time in candidates without first establishing whether your budget and their compensation expectations are even in the same ballpark.

No. 2: Keep Probing Until You Hit a Nerve

Since most candidates will play hard to get, be sure to delve deeply to understand their real motivation for looking at a new position. You must find the missing element or uncover the true dissatisfaction in a candidate's current role.

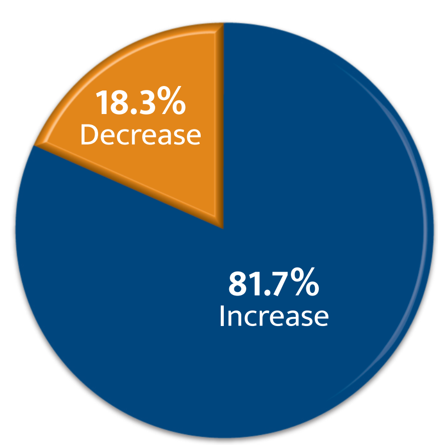
What is your firm's biggest challenge in finding terrific talent today?

What They Said

"We have grown from 2 to 12 people in the last 12 years and hope to be at 20 by 2015."

"In the SF Bay Area, there seems to be a dramatically shrinking pool of the best talent."

Do you anticipate that your firm will increase or decrease hiring in 2015?



Finding No. 5: Leadership is the Catalyst for Attracting and Retaining Top Talent

The 2014 data reconfirmed the crucial importance of leadership. When asked what a firm could to do to improve employee satisfaction, nearly all of the respondents' suggestions could have easily been addressed by better leadership. Simply put, employees expect highly effective leaders, and there is definitely room for improvement.

Respondent comments expressed clear frustration with the industry's leadership. Many industry leaders are well intentioned, but the frenetic pace of the workday often makes it difficult to be the thoughtful leader who inspires loyalty and commands respect. Outstanding leaders create an environment that nurtures shared values and mutual success. In a competitive market, all of these qualitative factors—which also include work-life balance, internal transparency and an overall positive culture—add up. They can make the difference between luring away your next star performer and keeping that individual with the firm.

Recommendations

No. 1: Sell the Quality of Your Leadership

When recruiting, emphasize the superiority of the leadership at your firm and cite specific examples. Executives place a high priority on the quality of leadership at their current or prospective firm.

No. 2: Get an Outside Opinion

If you want to pre-empt the loss of talent, consider a third-party evaluation of your leadership. An audit should focus on identifying the gaps in leadership skills and improving core leadership competencies. Some executives simply don't understand the art of listening or empathizing with their teams. An outside audit will help identify the problematic issues and pinpoint opportunities for improvement.

No: 3: Face the Music and Do an Exit Interview

Exit interviews remain critically important to understand the weaknesses in your leadership structure. Give departing employees at every level an opportunity to be completely honest about their experience at your firm. Unflattering comments about your firm's leadership on sites such as Glassdoor.com can damage an employer's brand for years.

What can your firm do to improve employee satisfaction?

What They Said

"Leadership issues will force me to look elsewhere."

"Leadership drives culture and culture attracts talent."

Conclusion: A Call To Action

The key takeaway from the 6th Annual Executive Survey is that employers will need to be more aggressive to acquire or retain talent in the current sellers' market. Winning new talent will be all the more difficult because most executives are comfortable and appear passive about considering a change.

The bottom line is if your business plan includes hiring, the good times should be tempered by reality: Offers in 2015 must meet significantly higher expectations.

Kathy Freeman Company

Unparalleled Depth of Experience and Perspective

Since 1992, Kathy Freeman Company has partnered with clients to identify, attract and assess top talent in the investment industry. Our retained executive search firm has completed hundreds of assignments for senior sales, marketing and client-facing executives—whether individual contributors or C-Suite leaders. Our success is based on a complete focus on the investment industry and unmatched domain expertise in understanding this market for talent.

The Perfect Fit

We take inspiration from our clients who for over 22 years have shown us that success is predicated on process, discipline and an commitment to excellence. The foundation for our search work is a customized methodology that we've developed and finely tuned. This process allows us to identify and understand the very best fit for each individual client. Our methodology, combined with our passion, intuition and persistence, create the perfect fit for our clients.

Kathy Freeman Company
Executive Search for Financial Services

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