The Shifting Balance of Power - Resuming the "War for Talent"

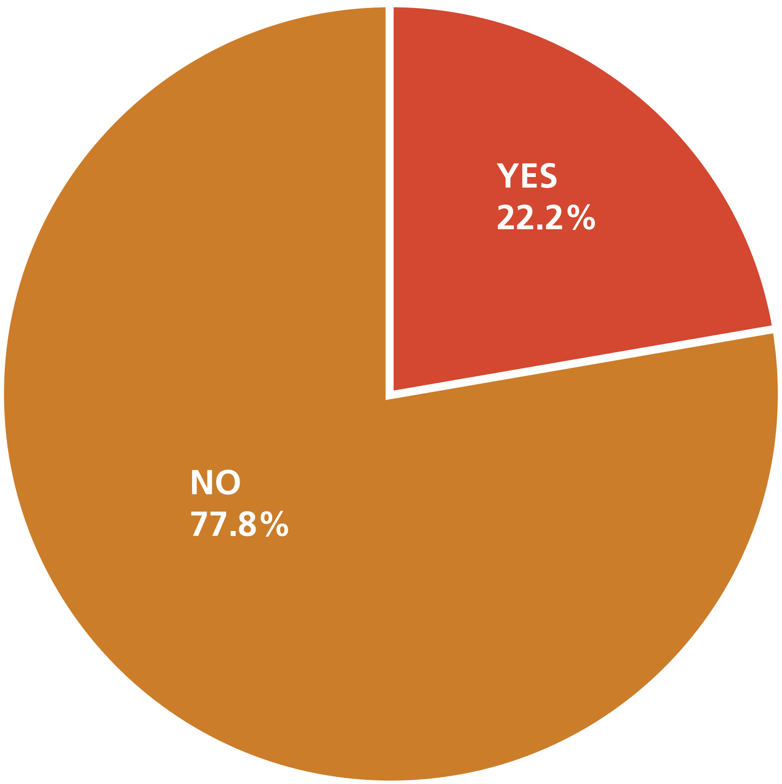
As the investment industry faces the first months of 2011, there is new-found optimism in the air. Most major market averages have regained all of the lost ground of the Great Meltdown. Unemployment, while still historically high, has been reduced – especially in the financial services sector. As CEO's of asset management firms and service provider organizations look to the future, their focus is now on growth and profitability as opposed to survival, which was the predominant theme in the previous years.

When assessing the landscape for talent heading into 2011, these firms are either going to decide to retain the best in class talent that they've already got on their teams, or look to attract high impact talent from the market to strengthen key business areas or open new opportunities.

In December 2010 The Kathy Freeman Company, for the second consecutive year, embarked on research designed to provide insights into the mindset of some of the most experienced executives in the functional niches of sales and marketing across the investment industry. The research leveraged twelve questions to ascertain the executives' appetite for change in 2011 and gathered additional insights surrounding their motivations, including whether to stay with their current firm or to transition elsewhere.

Our goal in providing this data is that it may be leveraged to support C level leadership in their efforts to make the right human capital decision, i.e. to either retain their best and brightest or to attract new blood in the coming year.

Did you make a change to a new firm in 2010?



While the respondents of our 2009 survey felt an overwhelming desire to execute a change away from their then current firms, few of our sample group actually acted on that desire. When asked how many made a change last year, only 22% responded affirmatively. We believe that firms became more proactive in retaining their high priority talent and/or that the stability in the markets removed some of the fear and loathing that many were feeling in 2009.

When we explored the likelihood that this niche set of industry contributors would consider a change headed into 2011, we discovered a substantial decrease from last year's tsunami of dissatisfaction. This year just over half of the respondents, or 56%, said they would consider a change, which is down from 76% last year.

Survey Details:

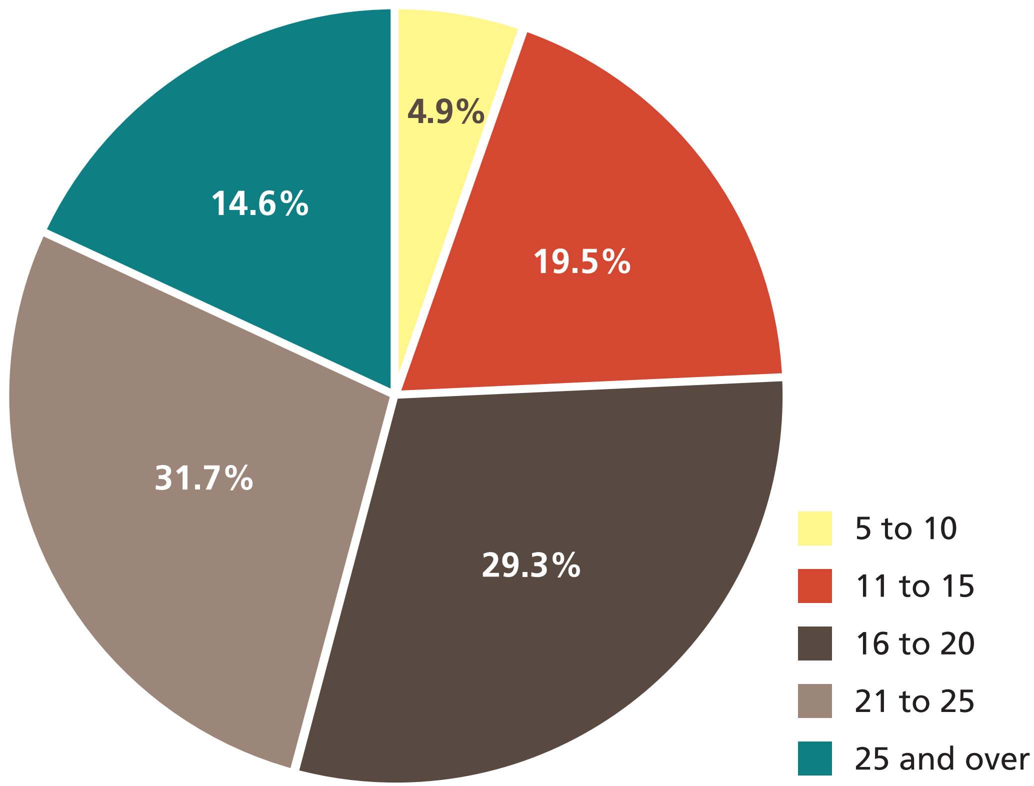
These respondents represent both leaders and individual contributors in senior sales and marketing roles in their investment or service provider organizations. In fact, 46% of respondents have over 20 years of industry experience. We believe that the implications of this research should be of keen interest, given that employees at this level of industry seniority are the pivotal players that firms want to lose the least and they are also the most challenging to replace.

These are the very same valued employees that hold the strongest relationships with the firm's most important clients, or are driving key new business into the firm, or are creating the brand and marketing messaging for the global markets that these firms serve.

Representative titles from this year's survey include:

- Chief Marketing Officer
- SVP Sub-Advisory
- SVP Institutional Sales
- Consultant Relations
- Executive Director Strategic Accounts
- Director of Marketing
- National Sales Manager
- EVP, Distribution
- Managing Director, Private Wealth

How many years experience in the investment industry?



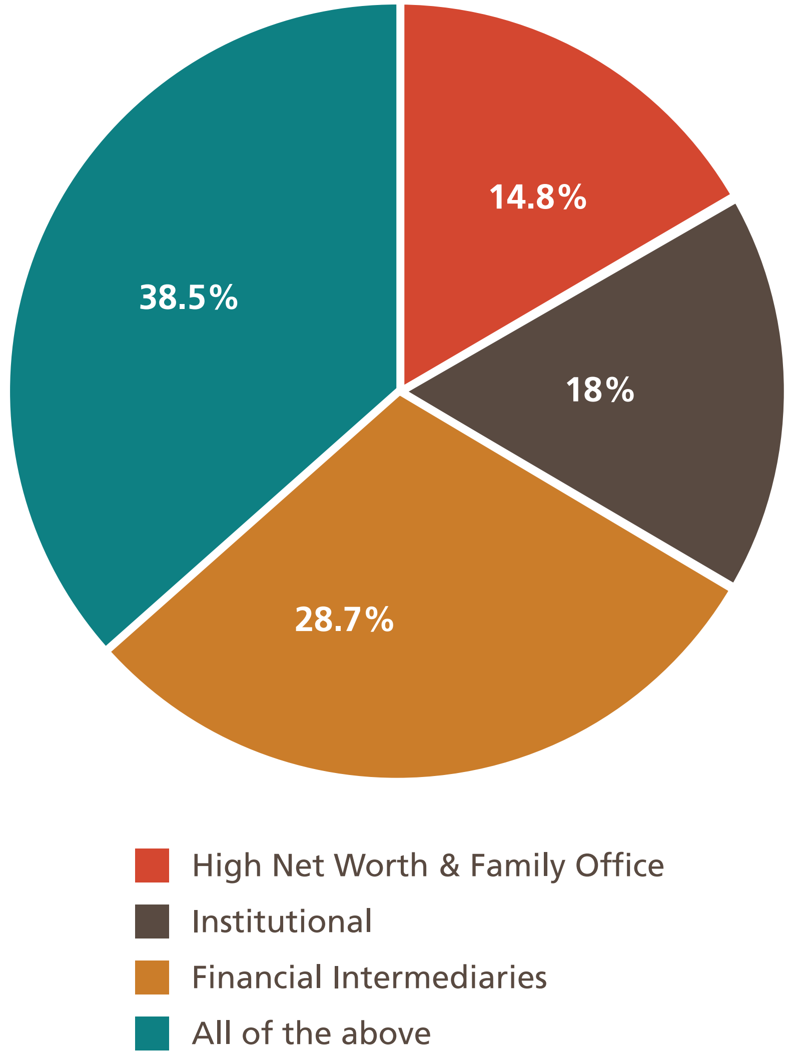
The top three product segments represented by our respondents in this year's research encompassed:

- Mutual Funds
- Investment Technology/Solutions
- Separate Accounts

This year's survey was sent to a broad sampling of executives covering:

- Distribution through Financial Intermediaries
- High Net Worth / Family Offices
- Institutional
- All of the above (many firms have now consolidated their distribution efforts as opposed to the distinctly separate channels we saw before the downturn)

Categorize your target audience as one of the following?



Executive Summary:

There are two primary themes evidenced from this year's research.

First, we've been able to identify several top motivators for those who are considering a change, insights which will be useful to firms as they try to position themselves to attract the best in class candidates to their organizations.

The second theme that we identified from our study surrounds what is keeping survey participants planted at their current firms and, by extension, what can be done to retain those that are at risk of departure.

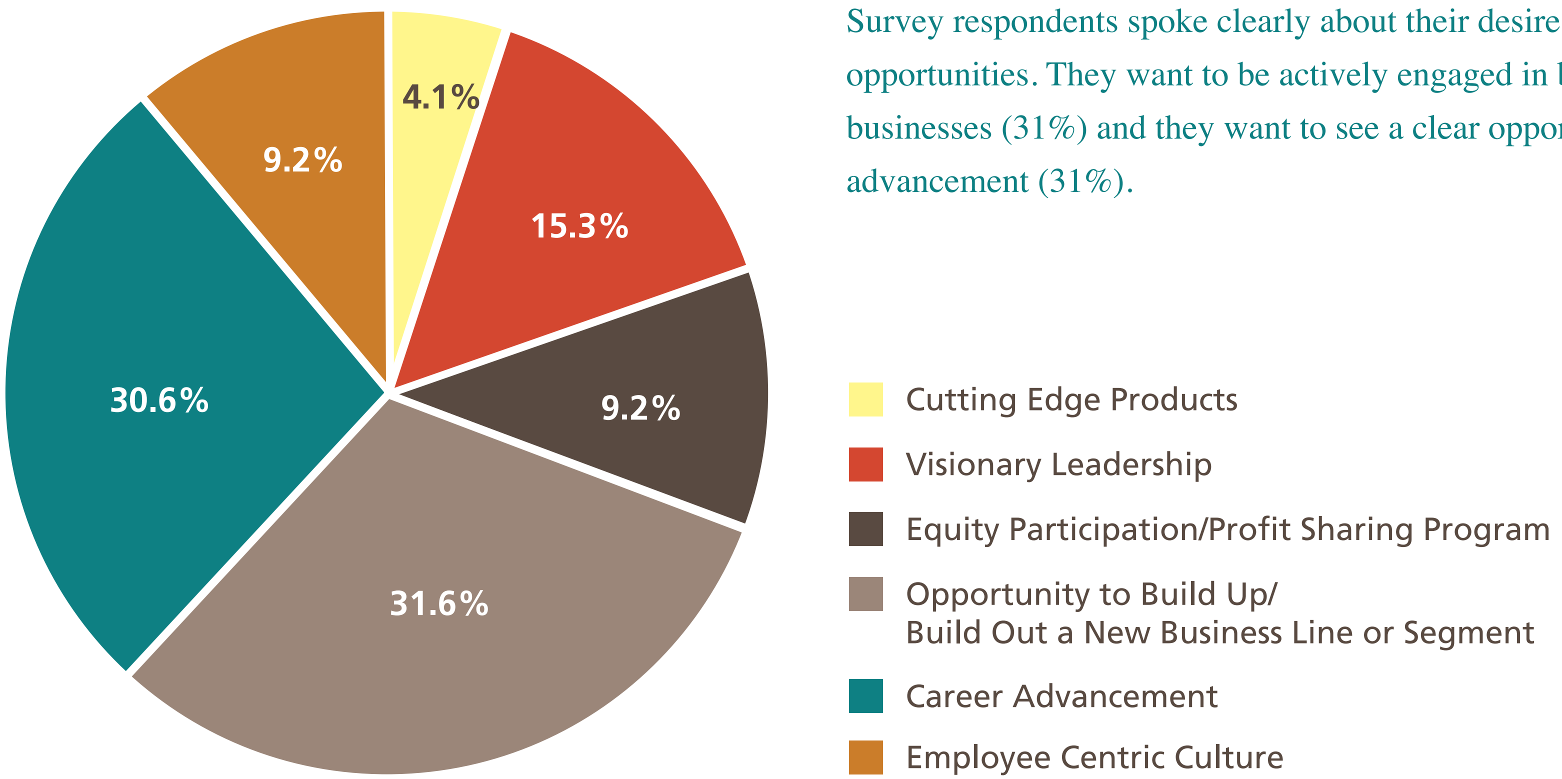
Our survey participants have generally been at their current firms a relatively short period of time. In fact, 66% of the sample groups have been at their current employer for 5 years or less. We believe it remains incumbent upon those firms to place the highest priority on the satisfaction of this group, as the firm has already expended time and financial resources into the development and culturalization of these employees. In exchange, these same employees have become valuable contributors to the top line revenue and bottom line profitability of their firms.

Detailed Findings:

Issue 1 – What motivates top talent to consider making a change?

The investment industry is now on an upward trend. While margins are still tight, profitability has improved and firms are seeking new mechanisms for expanding their reach and increasing their market share with their targeted audiences. In order to support their new-found growth initiatives, many firms will be reaching out to their competitors to attract talented and insightful executives to help them lead that growth.

What will be most important to you in identifying the right opportunity?

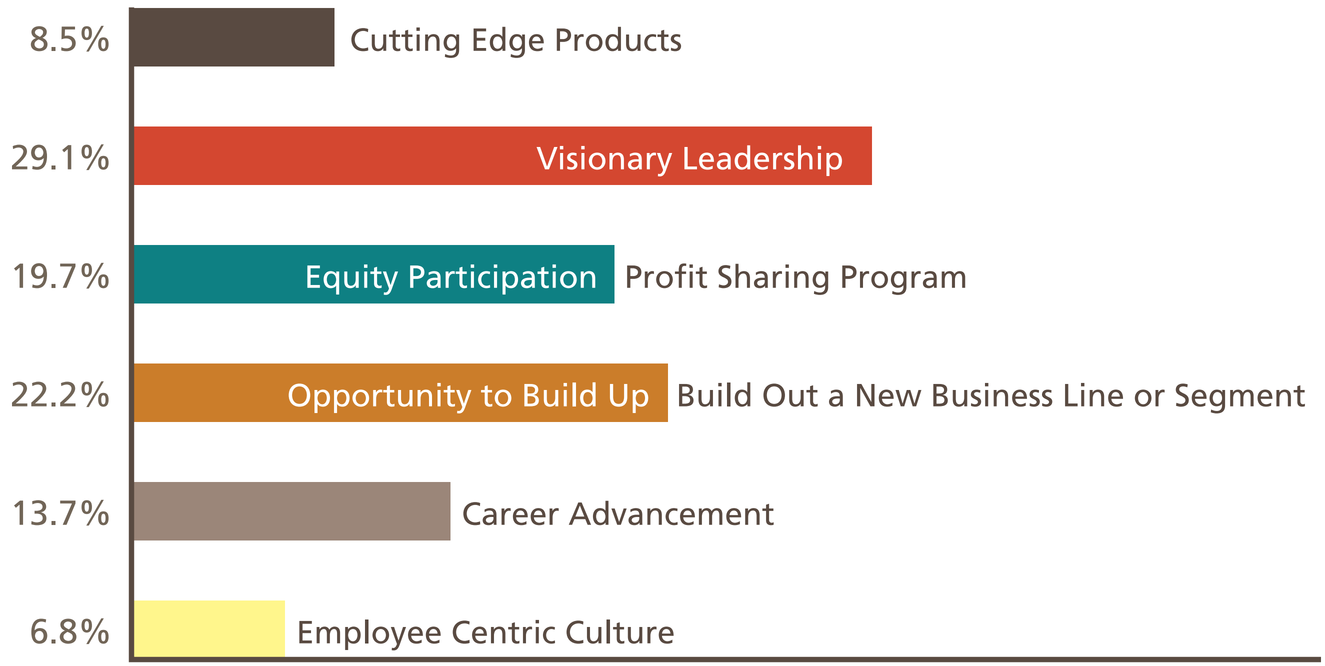


What is it going to take to attract these individuals to make a change?

Survey respondents spoke clearly about their desires regarding new opportunities. They want to be actively engaged in building new businesses (31%) and they want to see a clear opportunity for career advancement (31%).

They also want to be led by or involved with management colleagues that possess visionary leadership (29%).

What is the 2nd most important component to the right career opportunity?



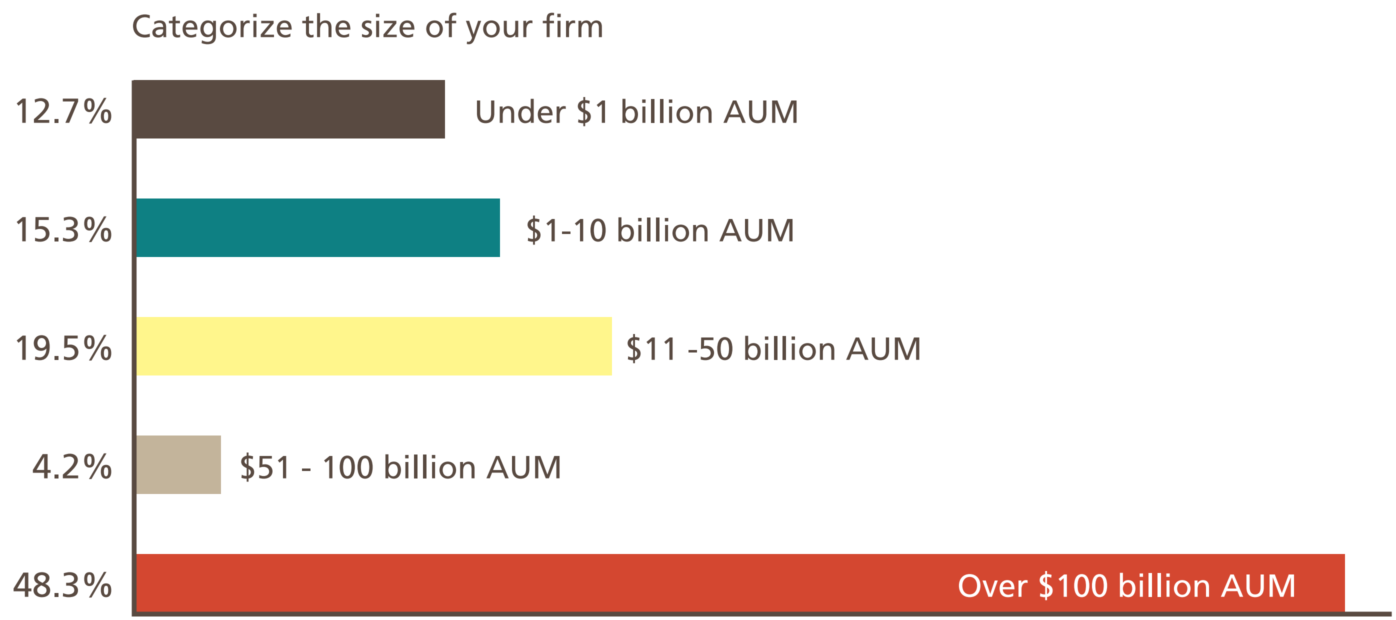
Implications to your firm:

The most successful firms continue to work to reinvent themselves. Whether adding a product line, creating a new distribution channel, or rebranding the firm for visibility in a new market, individuals that are considering a change this year are looking to impact their potential new firms in a major way.

Our respondents' focus is on contributions wherein they can build out a new business/profit center for the firm, have a seat at the executive table, and influence strategy that will have a lasting legacy on the firm's overall success.

As many of the survey respondents (48%) came from the very largest firms (over $100 billion AUM), we believe there may be a window of opportunity for boutique firms to create meaningful roles to attract candidates, assuming these smaller firms can offer the opportunity for executives to have increased career satisfaction by being more impactful players on the leadership team.

While career growth is a subject which ends up being a moving target of definition in a world where we've just surfaced from a contraction and reduced layers of leadership, we see that this concept is a critical component in attracting these sales and marketing executives into a new organization. The subject of career evolution must surface for discussion when firms are in the recruitment process.



As individuals get further along in their careers, the high impact players continue to demonstrate a thirst for individual growth and development. Time and again, these people will choose to take a bit less money for a bigger opportunity and greater challenge.

Does your firm's message to potential candidates speak effectively to career growth?

According to our respondents the secondary, yet still critical, motivator when considering a change is visionary leadership.

This emphasis on visionary leadership bears important consideration.

Firms should take a hard look at their existing leadership team at the beginning of 2011. Building a successful business today is challenging enough, and having an unstable component in your leadership team can be debilitating to growth.

In today's increasingly competitive landscape for talent, firms cannot be lax about retaining average players on their leadership team. There are multiple searches going on right now where firms are theoretically endeavoring to hire the best in class, which will not happen because the best in class talent won't be attracted to working for an executive that lacks vision and is devoid of the ability to motivate as he leads.

Our research clearly indicates that firms must be able to articulate their vision for future growth to attract the most highly sought after individuals from their current roles. Having a B or C player in the hiring chair won't deliver the end result that the firm is seeking.

Perhaps the time is right to get some market feedback on your leadership team. Where are your weak links, and how are they and the firm perceived overall? Does the market have a high level of regard for your firm, your brand and your leadership, or would it be fair to say there are challenges to address in overcoming some firm perceptions?

Now is the perfect time to be proactive in the market. Make bold moves that signal that accomplishing your vision also involves making difficult choices.

Last year across the investment industry, firms felt empowered when they sought to hire from the market. Surely, as unemployment was high coming out of 2009, they would have their pick of an extensive pool of qualified candidates. What resulted from this perception of a bottomless well was a lack of decisiveness in their hiring process which was translated to the market as a lack of visionary leadership.

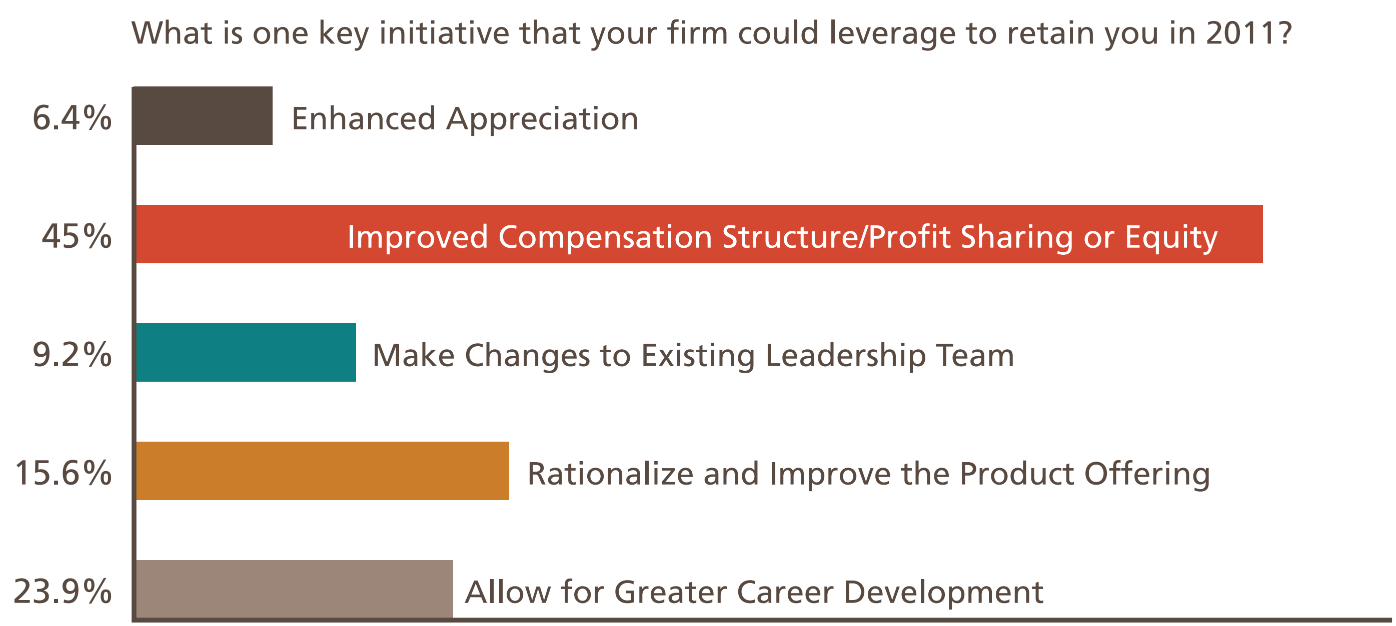
When firms set out to make a senior-level hire, especially in the highly visible area of sales or marketing, only to put the position on hold or to change the parameters for the search in the midst of the process, this sends a message that the firm lacks clarity of purpose. Last year many firms that were hiring felt like they had the luxury of stringing out their final decisions even when they had an exceptionally strong set of candidates in their queue.

The 2011 employee market will view such behavior as indecisiveness and companies will begin to lose their credibility. Firms may not appreciate how close knit this community of talent is, nor do they seem to realize how the grapevine works. Inconsistent or inconsiderate treatment of potential candidates gets personified among the applicant pool they are seeking to attract and it will have a deleterious effect on their "employer brand" going forward. Whether working directly with the candidate pool via the human resources department, line manager or through a search provider, it is critical that the messaging from the firm during the hiring process remains consistent, expedient and positive.

Issue 2 – What do these executives want to see to stay with their existing firms?

This year we expanded our questioning and asked, "If you are not going to consider change in 2011, what keeps you at your firm?" That question, when combined with, "What is the one key initiative that your firm could leverage to retain you in 2011?" should send firms a message that is both loud and clear: employee retention is predicated on a strong equity ownership/profit sharing component of their compensation.

In fact, a resounding 45% of respondents said addressing equity would make them think twice about leaving to join another firm and it might well eliminate any desire for conversations about change.



We believe that retention within the senior ranks in our industry has to do with tying these most valued employees into the long-term success of the organization. With their desire to contribute to the firm's direction, combined with their keen interest in equity ownership, there appears to be a paradigm shift in place coming out of our recent economic downturn. Our research is indicating that this targeted audience may have shifted their focus away from the 'lone wolf' individual contributor mode, which was a prevalent characteristic of the 1990's, and they are now concentrating more on the health of their firm overall. Considering the tremendous job loss and individual economic devastation that surfaced as a result of Bear Stearns' and Lehman Brothers' demise, this perspective is not surprising.

In his book *Drive: The Surprising Truth About What Motivates Us*, author Daniel H. Pink addresses how companies have become accustomed and comfortable offering short-term rewards for specific actions or accomplishments.

The investment industry has been dedicated to providing these near-term carrots to its impact players in the form of either bonuses or commissions. They've implemented awards programs, sales contests, and channel specific incentives in order to motivate their employees to achieve their highest potential.

Contrary to the "carrot theory," Pink describes his theory of Type I which suggests that intrinsically motivated people usually achieve more than their extrinsically focused (read: reward-seeking, carrot- chasing) counterparts. His research, when combined with previous research studies, indicates that many people are actually motivated at a higher and more sustainable level when they are tied into a larger, and longer term, cause that they believe in.

As an illustration Pink references "mastery" and suggests that if your goal is to master a certain role, capability or skill, then it's a lifetime worth of focus. You never arrive because mastery is somewhat unattainable. We believe that this is analogous to equity and/or profit sharing as they are long term components that solidify employees' perceptions that their contributions to the firm's overall success need to be ongoing.

Since there is no such thing as an ‘end game’ that exclusively results in improving either revenue or share price, what matters most are the employees’ consistently high efforts, which are ultimately rewarded by being connected to the firm’s long-term success.

Are we in the investment management industry effective and consistent when it comes to tying our teams into our firm’s overall success, or is it more about individual contribution?

The feedback from this research indicates there is much work to be done, particularly with this senior level of respondents as their focus is around equity and profit sharing.

What can your firm put into place to retain your talent?

Charles Schwab’s accomplishment in the 1990’s as a pioneer in making their employees shareholders in the firm still stands as a strong example of the success of using this approach. Ownership wasn’t a privilege afforded only to senior management. Vice Presidents, operations staff and administrative workers all earned shares. The resulting success of this initiative was indicated both by the growth of their share price over that decade and also by their ability to retain their talent.

While Schwab’s cash compensation was simply average when compared to the marketplace, the majority of their employees couldn’t be enticed by a significant increase in cash from a competitor because of their ownership in the bigger Schwab organization.

More than in previous years, firms today would be wise to tie in their employees, and ensure the continuity of their culture, by implementing (or expanding) an equity or profit sharing plan within the broader employee ranks. These tools serve to emphasize the importance of overall firm success as opposed to individuals working on their own agendas.

Potential Solutions:

As the data suggests, there has been a shift in the sales and marketing talent pool's motivation to consider a change going into 2011. The decrease in the number of those surveyed seeking a change in 2011, combined with their increased expectations about what it will take to be attracted to a new opportunity, will result in the resurfacing of the War for Talent.

Tools to Attract Talent:

With the landscape growing more competitive for attracting the best sales and marketing talent, what can your firm do in preparation to win the battle?

1. Make sure there is continuity between the C level vision and the story that is being told to the market by your internal human resources department, your hiring managers, or your search partners. Don't take for granted that what is discussed in your top level strategy meetings is clearly understood and translated correctly down through the ranks. Leaders are advised to take the time to articulate the message of the firm's vision into a written format in the hopes that it can be more consistently delivered to the market.

2. Make it a priority to look at how you continue to nurture high performers in your organization. Career potential needs to be proactively addressed in today's conversations with the most prized candidates. Firms need to have concrete and current examples that demonstrate how that growth has been achieved by existing employees in recent months. Work internally to have a brief survey conducted among your employees to better understand the knowledge or responsibilities that they would deem beneficial to their careers. This will afford leaders a starting point to build programs to address career pathing. In turn, your firm will be perceived as attentive to this critical motivator to the highly impactful talent you want to attract.

3. The long-tenured and experienced respondents that participated in our research spoke clearly about their desire to build up (or out) a new business line, as it was seen as a critical motivator to their desire to transition from their existing firms. The question for the C level leaders becomes, is it more prudent to allow an existing leader to take over the build out of a new product line or distribution effort, or should you leverage the opportunity to attract a new highly focused impact player for that business? If you could attract someone with strong existing relationships in a particular segment or a strong level of experience with a particular product and give them that challenge, your results may be driven more expediently. One path will most likely keep expenses down, while the other path may drive greater results more quickly. Determining your firm's ability to acclimate new talent into your culture will assist leaders in ascertaining which direction makes more sense.

Tools to Retain Talent:

1. One effective tool that has been leveraged successfully over time among asset management firms and wealth managers to retain their top sales and marketing talent has been to provide 'in perpetuity' payouts for assets retained. This compensation approach has been effective in retention strategies when used in complement with equity or profit sharing, or in lieu of those if such components are unavailable within a firm. In our work with highly motivated Type A personalities over more than two decades we have heard a consistent complaint vocalized: how frustrating it is each year to have to re-create their success from scratch. While firms are looking for mechanisms to motivate these performance-oriented contributors to reach higher and farther, they also neglect the simplest opportunity to recognize them for their successes achieved thus far in their tenures.

Since asset retention is a corporate goal versus an individual goal, this structure of a payment based on AUM retention dovetails with the concept that individuals are more highly motivated when contributing to a bigger goal beyond their individual accomplishments. Even in environments where there is a dedicated relationship management effort, we believe it is prudent to compensate the person who brings in the business, as well as vesting them as to the importance of keeping the business. Even though the percentages paid out might be small, as assets grow the individual continues to feel more connected to the firm and less likely to consider departure.

2. The maturing of the labor force each year going forward (an indicator of fewer highly tenured and accomplished candidates), combined with a perceived lack of loyalty demonstrated among the Gen X and Gen Y labor pools, makes it incumbent for firms today to be proactive and creative in their retention strategies. The senior level respondents in this research clearly articulated their priority for retention using equity and profit sharing. What is the program that your firm has in place today?

3. While equity participation is easier to address in a publicly traded firm that has more tangible (i.e. public stock price) value to it, certainly there have been many firms with private stock which they have leveraged to attract strong talent. However, if your firm's vision doesn't include selling or going public near-term, then the value of that equity gets muddied in the candidate's mind. In private firms a profit sharing component is sometimes a simpler mechanism for creating additional value for your employees. Private firms within our industry today that have grown exponentially without profit sharing or any equity ownership among their leadership or employee base are well-recognized for their turnover. In these firms, while the owners have gotten wealthy, the employee base feels completely disconnected and disenfranchised. When opportunity knocks to pull the best and brightest out of these companies, there is no resistance in place. Is profit sharing a component of your privately held firm? If not, how are you creating the culture that both centers employees' focus and rewards their contribution towards the company's success?

Closing Statements

The research going into 2011 indicates that there has been a shift in the balance of power. It is no longer simply an Employers' market and the trend is leaning towards a resurfacing of the War for Talent. The good news coming from the human capital markets, and this specific research, is that there is a much higher degree of satisfaction demonstrated among our niche of respondents with their current firms and opportunities. As a matter of fact, 66% of these individuals indicated that their role was a good fit in maximizing their strengths. The ball is in the Employers' court to retain that talent going into 2011, but it will require a proactive internal strategy to keep that momentum.

For those firms looking towards growth and expansion in 2011, it is imperative that an internal strategy is designed in order to attract the 56% of respondents that may consider a change going into the New Year. This is a pivotal time to button up your firm's edge, its vision, its leadership team, and its equity and profit sharing program. You want to ensure that the story you present to the market is one that will compel even the most satisfied individual that your firm is worthy of making a change for.

The "war for talent" is a term coined by Steven Hankin of McKinsey & Company in 1997

About Kathy Freeman Company

The Kathy Freeman Company, specialists for nearly two decades in retained search for senior sales and marketing executives within the investment industry, possesses a unique perspective on this audience. Our ongoing research indicates that these talented candidates are open to either being compelled to transition or compelled to stay in their current roles.

The operative word here is compelled.

Marketing our clients' vision among the competitive landscape in order to secure interest from best in class talent, and then assessing that talent to ascertain their fit within a client's culture, are the signature strengths of the Kathy Freeman Company.

To discuss how we might support your firm's future growth, either through pinpointed strategic internal assessments of existing leadership or through our finely tuned retained search services, please email kfreeman@kathyfreemanco.com or call 800.883.3232. In addition, if you would like to be included in our 2012 study or wish to speak further about this year's findings, let us know and we'd be delighted to respond. For more information and additional firm insights please visit us at www.kathyfreemanco.com.