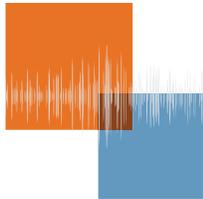




**The Disconnect Between
Intent and Execution**
Talent Trends 2016

Kathy Freeman Company 
Executive Search for Financial Services

 February 2016



Executive Summary

Like it or not, employers will face another tight market for top-tier talent in 2016. Highly selective candidates will move only if all of the essential elements are in place. In this year's survey, we examine the underlying reasons that are keeping senior, client-facing executives from moving from one firm to another.

What Motivates Satisfied Talent to Move to a New Opportunity?

The investment industry has evolved from the depths of the financial crisis in 2008 and 2009, but one aspect of the business hasn't changed much – it remains very challenging to get seasoned, high-performing executives to move to another firm.

The 7th Annual Executive Survey by Kathy Freeman Company focuses on why senior sales and marketing executives in the investment industry continue to be highly selective in evaluating any offer outside their firm.

The Survey identified five distinct findings that shed light on current market conditions for talent and explain why executives aren't more motivated to leave for a new opportunity.

First, while the research identified an increasing willingness by executives to consider a change in 2016, their passive approach suggests a reluctance to make a move. This year's data and analysis point to several trends that employers must be aware of as they seek to recruit talent.

Second, the Survey found that equity participation, which we've long argued is a critical component of any offer, is now the starting point. Equity is no longer optional. Any offer without it isn't likely to go far.

Third, the qualitative aspects of a work environment are looming larger. Top-tier talent desires a collaborative company culture conducive to their success and well-being. In this market cycle, executives are placing an increasingly higher priority on work environment.

Fourth, executive talent wants to be surrounded by leaders who understand how to motivate and inspire. The Survey found that many executives are actually quite pleased with the existing leadership at their firms. All things considered equal, effective leadership is one of the best talent retention strategies. On the other hand, a competitor's successful leadership style will make it that much harder for your firm to recruit talent.

Finally, and somewhat surprising to us, the industry continues to be only modestly supportive of diversity. The Survey found that although the majority of executives believe diversity is a good idea, many firms haven't been effective in implementing strategies. We believe diversity is a marquee selling point to candidates, but few firms can convincingly make that case given their current commitment.

To help employers succeed in this highly competitive market, this Survey offers perspective and recommendations based on our 24 years of search expertise in the investment industry.

Top Findings 7th Annual Executive Survey

Executives Aren't Moving
Without a Push

Equity Has Moved from
Wish List to Table Stakes

Culture Takes the Driver's Seat

Executive Leadership
Must Motivate & Inspire

Diversity Is Gaining
Only Modest Traction
to the Industry's Detriment

Finding No. 1: Executives Aren't Moving Without a Push

First, the good news for firms seeking talent: More executives will consider a move in 2016 than in 2015. According to the Survey, 66% of respondents said they would contemplate a position outside their current company this year – up 9% from last year's Survey. This is also the second highest percentage since we began our research during the height of the financial crisis in 2009.

Now the bad news: Even though 57% stated they would consider making a move to a new firm in 2015, only 15% of respondents actually did. That's down from 17% the prior year. This is the lowest percentage since we began collecting data about this topic.

Why the disconnect between intent and execution? To find out, we dug further and asked those who did not make a move if they were in the market interviewing for roles. In fact, only 29% of respondents actually interviewed outside their firm in 2015. This low percentage highlights the tepid interest and accounts for the mismatch between what talent says and does.

To determine how motivated the 66% of respondents are to making a change in 2016, we asked them directly. Over 50% claimed they were only "somewhat motivated." This lack of enthusiasm about exiting their current firm is further confirmation about their ambivalence and/or selectivity.

The message from the Survey's data seems clear. First, most executives aren't motivated to move, but when they are, they are very particular. Second, firms looking to recruit in 2016 must develop aggressive recruiting strategies. Unless companies serve up a compelling storyline and push candidates with a compelling offer, executive talent will stay put.

Recommendations

No. 1: It Will Require Quantity to Find Quality

Be prepared to expand your canvas of candidates. With the unemployment rate for college-educated people in the low single digits, the pool of available candidates remains small. Employers may need to cull through hundreds of potential candidates to identify, assess and attract just the right one.

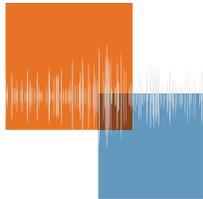
No. 2: Make Sure Your Brand Resonates

A brand is the sum total of the experience between a firm and its constituents – clients, employers, partners and other influencers. Candidates today are smarter about evaluating a firm based on the strength of its brand. A stellar brand, which includes elements such as uniqueness, passion, consistency, competitiveness, and leadership, makes it easier for executives to succeed. A tarnished brand means an uphill battle in the market for talent.

No. 3: Highlight the Momentum of Your Firm

Nothing sells like success – or momentum. Executives will opt for another firm that has demonstrated momentum. Put another way, a static story is a deal killer. So highlight the parts of your story that spotlight momentum and show how you are rolling the competition. Be precise about it, too. Executives should cite three or four headline numbers, statistics, or compelling illustrations during conversations with candidates to reel them in.





Finding No. 2: Equity Has Moved from Wish List to Table Stakes

If you're not offering equity, you're not in the game for top-tier talent.

Survey respondents re-confirmed what we've been hearing in the marketplace again and again: Equity must be included in any offer. This year's Survey validated this reality in multiple ways. First, 67% of respondents claimed that their firm recognizes the importance of equity. Second, 69% of respondents currently have equity. Third, 74% received their allocation just within the past 12 months.

Thus, if you're really interested in motivating unmotivated talent, offering equity is imperative. In years past, our research found that respondents would take less cash in exchange for equity. Those days are long gone. Now, almost everyone has equity and expects it. The bottom line is that in this market, equity is table stakes if you want to hire the best and the brightest.

Recommendations

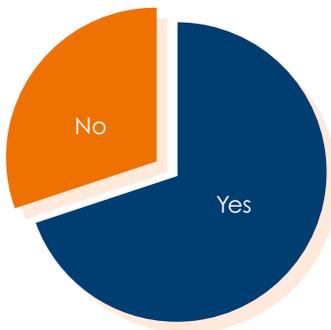
No. 1: Make Sure You Can Offer Equity

Though it may seem obvious, be sure your firm has an effective program to offer equity for new hires. As critical, make sure the program is in place for those you want to retain and develop.

No. 2: One Size Doesn't Fit All

Be ready to customize each equity award based on experience and where the candidate is in his or her career. For more seasoned executives, make sure the Long Term Incentive Plan or grants correlate to their career lifecycle. For younger executives, equity may not be perceived as essential – but it is. While a five year vesting schedule is attractive for Baby Boomers who value tenure, many Millennials aren't motivated to stay with any one firm. Firms offering equity to retain next generation executives will need to educate them on the importance of career longevity, and how career commitment ties into personal wealth generation.

Do You Have Equity in Your Compensation Package Today?



For Those Who Have Equity, When Did You Receive It?



Finding No. 3: Culture Takes the Driver's Seat

Company culture isn't just an HR buzzword. The Survey identified that company culture is one of the underlying reasons people make a move – or stay. It is a key selling point for companies on the hunt for talent. At the same time, a competitor's terrific company culture could pose an insurmountable challenge for a hiring firm.

Underscoring the growing importance of culture, the Survey uncovered that 55% of respondents said they would remain at a firm with a great company culture *even if the compensation wasn't as competitive*. The Survey also found that there aren't many disgruntled employees ready to be cherry-picked. More than 65% rated their company culture this year as either outstanding or above average.

The opposite is also true. A dysfunctional company culture works against employers and will likely lead to turnover. The primary reason most people left their firm in 2015 was a deteriorating company culture, the Survey concluded. The unmistakable message: Ignore culture at your own peril. Companies must make culture a high priority to attract or retain top talent.

Recommendations

No. 1: Perform an Honest Assessment of Your Existing Company Culture

Is your executive team authentic about creating a great corporate culture? If not, your firm is facing a stiff headwind. Proactively measure how well your firm is incorporating the survey's top drivers of company culture. Annual reviews are an opportune moment for collecting feedback, but also consider an anonymous survey, so employees can be brutally honest.

No. 2: Solicit Candidate Feedback About Your Culture

Consider another resource for an unbiased perspective on your culture: candidates. If someone has declined to work for you, find out why. Candidates involved in our searches, as well as survey respondents, mentioned experiences in which a company's leadership delivered conflicting messages during the interview process. Candidate feedback can be very helpful in unifying the vision and creating a conversation that serves to reunite the leadership team.

What They Said

"Environment and culture are more important than the money."

"The culture and people can separate the good firms from the great ones!"

"Culture is as important, if not more important than compensation."

Top Drivers of Company Culture

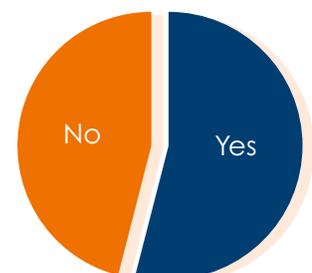
Clear Sense of Ethics & Integrity

Clear Vision for the Future

Positive & Collaborative Work Environment



Would You Stay at a Firm if You Believe the Culture Is Right but the Compensation Isn't Competitive?



Finding No. 4: Executive Leadership Must Motivate and Inspire

Highly regarded leadership is another key selling point in today's market. It is also another very effective retention strategy, much like maintaining a terrific corporate culture. Top-tier talent will determine quickly whether to seriously consider a firm based on the quality of the executive team.

So how do respondents feel about their leadership? More than 50% of respondents are highly optimistic about their firm's current leadership. These executives also expressed a preference for leaders who inspire and motivate teams. To that point, more than 40% said motivational and inspirational leadership is the most important quality. Twenty-five percent ranked ethics and integrity of actions as the second most desired trait. Eighteen percent named a clear vision as the third most important quality and only 7% said delivering against stated objectives was at the top of their list.

However, the Survey also identified that nearly one in four firms is not measuring up. Twenty-seven percent gave their leadership a failing grade. Poor leadership in this market is equivalent to giving your best talent a virtual push out the door.

The Survey also identified significant room for improvement in developing the firm's next generation of leaders. Only 55% agreed that their firm was working proactively to develop the next generation of talent. As we noted in past years, the industry is facing a talent shortage, and attracting new talent is crucial. If young professionals don't receive inspiration from their leadership as it pertains to their personal career progression, they'll likely opt out of the financial services industry and into one that possesses greater career potential.

Recommendations

No. 1: Emotional Intelligence in Leadership Matters

Outstanding management is the key reason investors buy stock in a company. Candidates view management the same way. Executive teams who actively inspire, build trust, and create transparency will be the winners in the talent sweepstakes. Management teams that have a high degree of emotional intelligence will have an advantage in this market. Those that don't will face challenges.

No. 2: Make Certain Your Vision Encompasses Succession

In executive meetings, as well as in meetings with employees, it's critical that the leadership team clearly communicates a commitment to succession plans for the next generation. We frequently hear frustration from younger talent stuck in middle management positions with no clear path to advance. Actionable strategies to develop leaders, such as mentorship programs, must be a part of your culture. The absence of an articulated development strategy will send younger talent to the competition.

What They Said

"We have a talented group of next generation leaders who are stalled out because we're not growing."

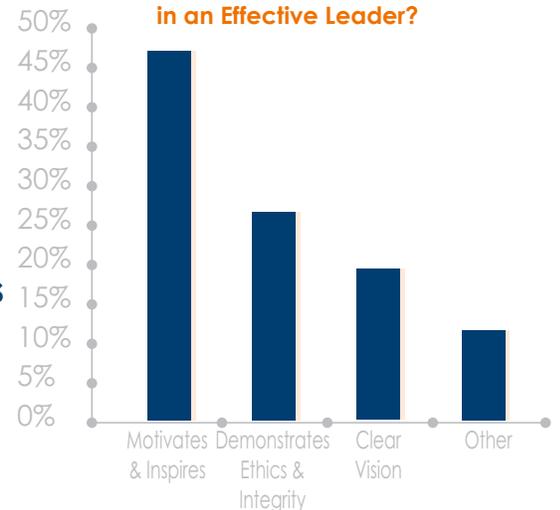
"Leadership must be caring and genuine. People will not let you lead them until they know how much you care about them."

"Not sure our business is designed for succession. The money is so good at the top that management is more concerned in milking the cow. That's the reason management is stale at many firms."

Qualities Most Valued in a Leader

Motivates & Inspires
Demonstrates Ethics & Integrity
Clear Vision

What Quality Do You Value Most in an Effective Leader?



Finding No. 5: Diversity Is Gaining Only Modest Traction

For the first time, the Survey included questions about diversity. We asked these questions based on suggestions received from last year's respondents. It has also been a subject of considerable interest among our clients who want to understand the industry's sentiment about diversity initiatives. In our research, we defined diversity as inclusive of race, gender, and sexual orientation.

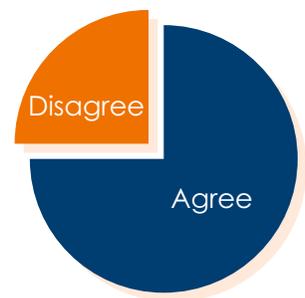
Surprisingly, the Survey identified only modest support for diversity. On one hand, 75% of respondents agree that a firm with a diverse management team arrives at better business decisions. Sixty-one percent also said their firm is making significant progress in recruiting a management team that is inclusive of race, gender, and sexual orientation.

On the other hand, 39% think their firm isn't progressing quickly enough.

Others believe there is no need to be more aggressive about diversity. The status quo is working; why change? Others suggest that there simply aren't enough diversity candidates to consider when their firms are seeking to be more inclusive.

At the end of the day, diversity shouldn't be a "check-the-box" exercise. It is a business imperative. Firms that are passive about diversity will face the repercussions such as failing to attract talent to your firm or to the industry. It may also lead to lost business. Clients and prospects are awarding business to firms whose commitment to diversity is visible, if not laudable.

A Firm That Has a Diversity Inclusive Management Team Makes Better Business Decisions.



Recommendations

No. 1: Build Your Diversity Strategies from the Top Down

We encounter many firms that don't have a diverse workforce, and many are only making modest progress in becoming more inclusive. Some of the most recognizable brands in the investment industry cannot point to any diversity on their executive team. Implementing diversity strategies must start at the top and include the C-Suite and the Board of Directors. To be effective, these initiatives must then continue to get buy-in at each level within the organization.

No. 2: Size Doesn't Matter – Sustainability Dictates Adoptability

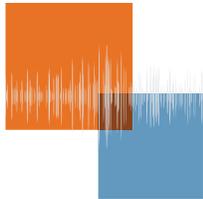
Incorporating diversity is essential for growing your business, regardless of the size of your firm. Multiple survey respondents indicated that their firms were just too small to have to think about or address diversity. Nothing could be further from the truth. When it comes to implementing diversity, size shouldn't matter. The bottom line is that firms must view the accelerating diversity of the workforce as an opportunity and embrace it.

What They Said

"I have only been involved in management teams with white men. So, it would be hard to evaluate."

"I feel that the most important quality [in leadership] is being experienced, skilled, and a good communicator no matter what age, gender or race."

"It's not guaranteed that a diverse team makes the best decisions, but in general a more diverse team should be more in tune with all aspects of the overall market for any business."



Conclusion: A Call-To-Action

The investment industry has evolved substantially from the depths of the financial crisis in 2008 and 2009, but it remains very challenging to successfully recruit seasoned, high-performing executives. The passive nature of our respondents, year after year, demands that firms step up and compel talent to move. This year's insights provide for a fresh look at today's priorities and highlight where firms might want to strengthen the weaknesses in their company culture, leadership team or the diversity of their management team.



Survey Methodology

Kathy Freeman Company's 7th Annual Executive Survey was conducted over a six-week period in the fourth quarter of 2015. Investment industry leaders across the nation, personally selected by Kathy Freeman Company, responded to the online survey. It is required that respondents are currently employed executives with an established career in a senior sales, marketing, or client-facing capacity within financial services. The participants represent firms in asset management, wealth management, alternative investments, private banks and trust companies, and service providers to the investment industry. Over 72% 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 talent trends research.

Unparalleled Experience and Perspective

Since 1992, Kathy Freeman Company has worked across the national landscape for talent conducting assignments within the investment industry exclusively. We go beyond the insights garnered specifically within the confines of our search work. Our goal is to provide thought leadership each year as it pertains to understanding the existing mindset of executives and their career priorities and measuring these changes through multiple market cycles. Gathering this data and underlying commentary provides us with an enhanced ability to better advise our clients on what it will take each year to attract the best-in-class talent.

The Perfect Fit

We take inspiration from our clients who have shown us that success is predicated on process, discipline, and a commitment to excellence. Our search work is based on a customized methodology that we've developed and finely tuned over 24 years that allows us to calibrate each search assignment to craft the very best fit for our clients.

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