



Software Development

Lessons from the technology sector: banks consider new sources of talent

By Robert Miller and Jeremy Smith

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OVERVIEW

Major financial institutions are increasingly viewing the technology sector as a source of talent for key roles such as low latency trading, cloud computing, security, mobile applications and other development/architecture roles. At the same time, in light of flat or reducing total compensation levels, banks are concerned that they, in turn, will lose staff to the technology sector and are looking to find alternative ways of motivating and rewarding key talent.

Banks are also looking to reduce total spend levels by off-shoring or near-shoring development staff, a practice which has become the norm with banking operations groups but has been less widespread with IT staff.

This paper provides some insight into reward practices in the technology space as well as the issues facing banks looking to set up new development locations. Specifically, we examine:

- Pay differentials between the technology and financial services sectors.
- Key development locations.
- General technology sector reward trends.

PAY DIFFERENTIALS

It is a relatively recent development for banks to look outside of the financial services sector for technologists.

The emergence of technology development hubs, and the potential to tap into these centers without necessarily paying a financial services premium has caused a rethink on IT talent sourcing.

The chart overleaf provides some insight into pay differentials by level and by role.

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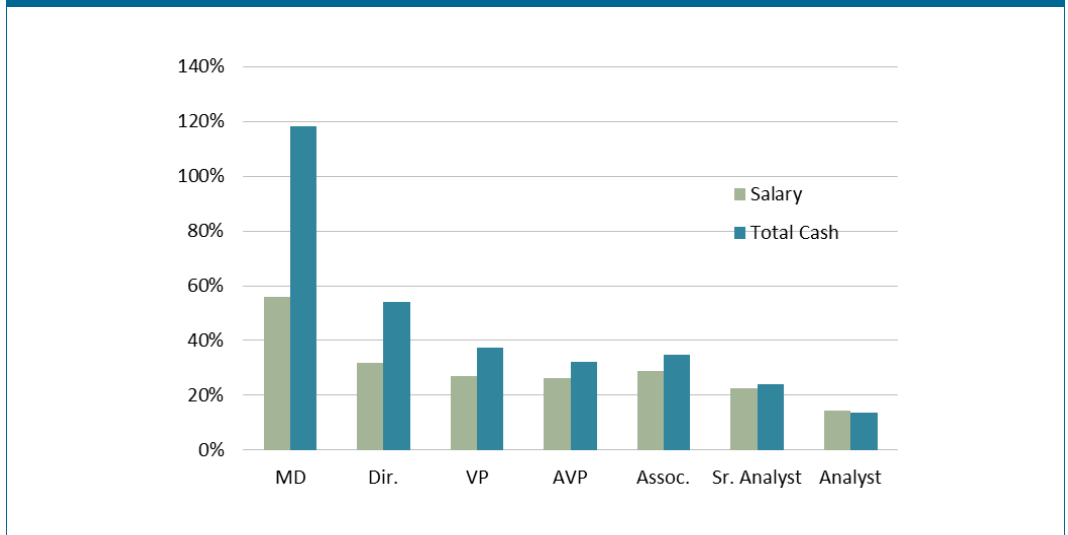
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Fig 1. Premium Of Banks Over Technology Firms By Level (UK Wide)

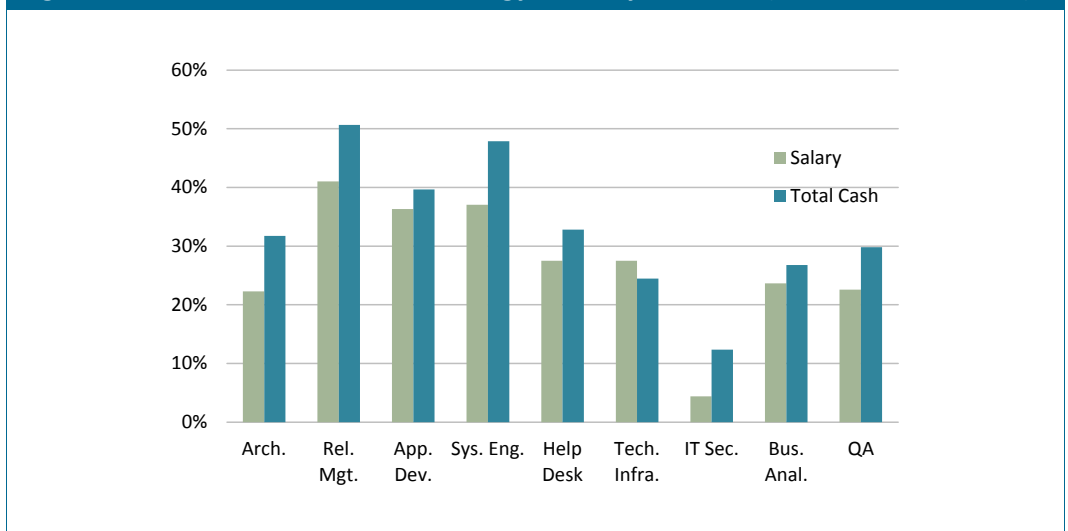


When viewed by level, the financial services premium is much higher for senior staff, e.g., for Managing Directors. MD's do however, represent less than 2% of all bank IT employees.

This premium is increased when incentive compensation is included. At more junior levels, (AVP and below), the difference in total compensation is much less but still indicates a significant premium.

An analysis by role suggests that there is variation between job types.

Fig 2. Premium Of Banks Over Technology Firms By Function (AVP Level - UK Wide)



For Release Management and System Engineering, there is a premium in the financial services sector which is perhaps unjustified given the fungibility of the roles.

The smallest premium, however, is for IT Security, which perhaps reflects consistent demand across sectors.

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In some technology hubs, particularly where a national pay market applies, developers currently employed in the technology sector but with some financial services experience in their CV are commanding a premium. We are finding that some financial services experience may also help deal with any push-back from management to hiring from outside of the sector.

The structure of the compensation package is fundamentally different to that observed across the banking sector. Bonuses are generally more modest but equity is extended lower into the organization by virtue of one or a combination of options, restricted stock, and/or performance stock.

However, it is often the 'softer' reward factors that continue to keep the majority of developers and other technologists within the sector. These include being close to products/customers, flexible and team oriented working patterns that rely on agile rather hierarchical staffing models, as well as a range of recognition plans and perks.

TECHNOLOGY LOCATIONS

There are a number of technology hubs globally. In the U.S., these include San Francisco's Bay Area but also less obvious centers such as Cary, NC, Baltimore, MD, Austin, TX and even New York, NY.

In Europe, several hubs have emerged. For example, Poland's Krakow is well established for video game design, web design and development, mobile apps, and bioinformatics while Prague has a solid reputation for security, game development and business applications. The IT market in Russia also continues to grow aggressively. Common characteristics for these hubs are politically stable environments with close ties to local universities with a large proportion of hard science graduates.

What is interesting is that, with few exceptions, most banks have not capitalized on these different talent pools to build their development or other IT centers. These tech hubs remain largely tech. only hubs, with just one or two major banks situated in these locations. This may be due to a lack of awareness of developments outside of the banking sector, or a view that non-financial services development experience is less relevant.

As noted however, with increasing convergence between banking and technology for talent (particularly software development), this pattern is likely to change. Indeed, a select number of banks have over the course of this year looked into these non-traditional locations.

ASSESSING NEW DEVELOPMENT SITES

When looking at potential sites for development, it is helpful to consider the size and shape of the desired organization in a given location.

See overleaf for an example.



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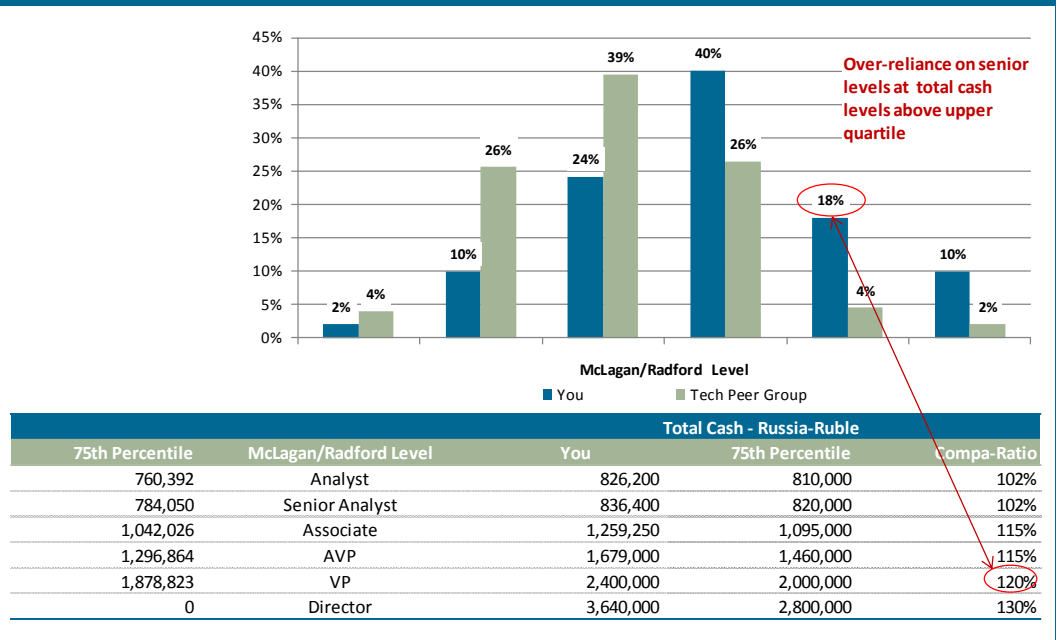
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Fig 3. Software Development Incumbent Distribution By Level



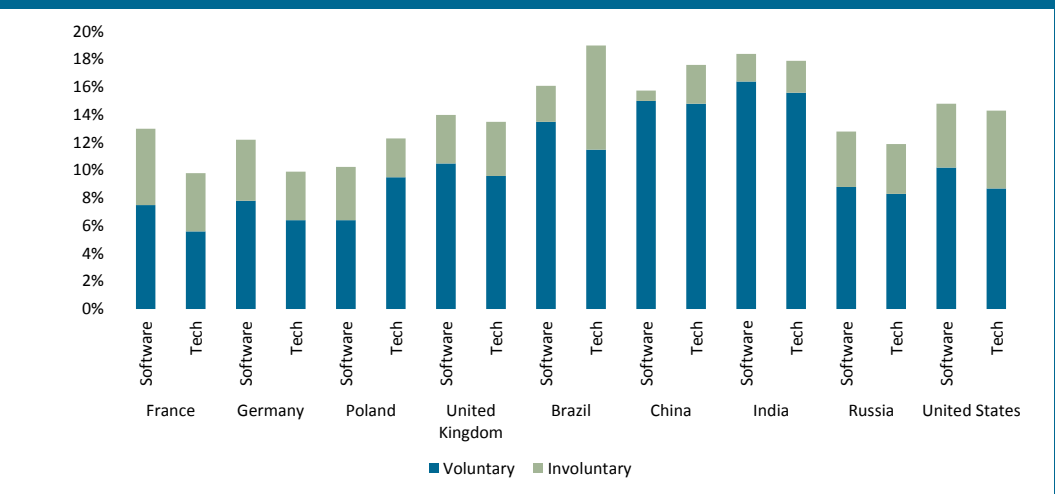
Taking Russia as an example, the data above suggests that this company is over-reliant on more senior Software Developers relative to practice in the technology peers in the country. In this company, existing total cash levels are well in excess of the market upper quartile. Accordingly, significant cost savings are possible through an analysis of the right staffing structure in the right locations.

GENERAL TECHNOLOGY SECTOR TRENDS

Cycles of disruptive technology (e.g. smart phones and tablets) ensure a degree of buoyancy in the tech space relative to other industries. Voluntary turnover levels vary, but tend to be considerably higher in the BRIC economies.

The following charts compare software against the broader technology sector in terms of employee turnover and salary increases.

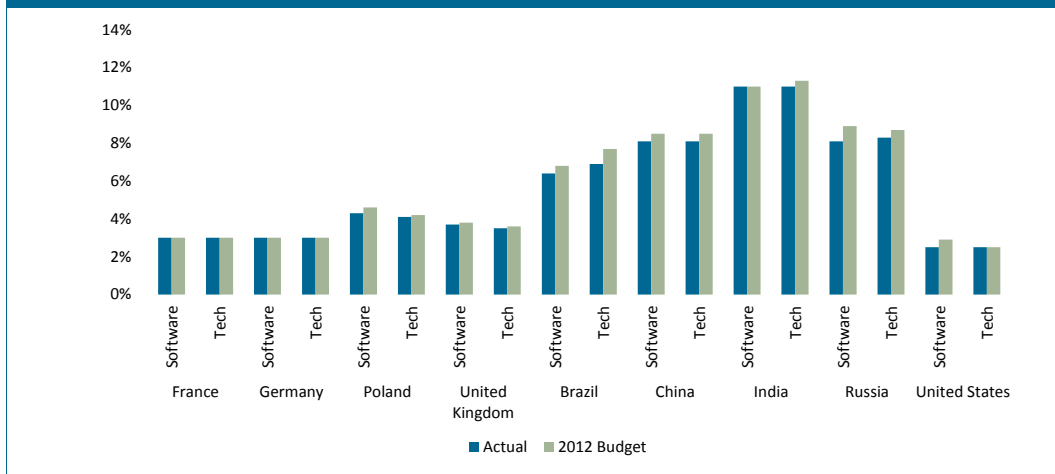
Fig 4. Overall Employee Turnover – Software vs. Tech





Within the technology sector, salary increases tend to hover around 3% in Western Europe, higher in Eastern European countries and considerably more aggressive in the BRICs.

Fig 5. 2012 Median Diluted Base Salary Increases – Software vs. Tech



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RETENTION IN THE TECHNOLOGY SECTOR

As the ‘softer’ components of reward are important to maintain engagement and productivity in the sector, technology firms are more likely to be innovative in terms of work environments and perquisites.

These vary between organisations, but some examples include:

- Full-time life coach on-site
- No dress code
- Racquetball courts
- Car detailing
- Subsidized summer camps for employee children
- On-site child care
- Subsidized restaurants
- On-site fitness center, health clinic and farmers market

Other initiatives aimed at building employee engagement include expanded employee training, promotion of career development opportunities, manager training to enhance managers’ effectiveness, and broader and more frequent employee communication.

THE FUTURE

Going forward, we expect to see increased convergence of talent between the banking and technology sectors. Recent Radford polling indicates around 20% of key development talent is being poached by the banks. However, there are often retention issues as the banking experience is fundamentally different from that in the technology space: an uplift in cash compensation for moving over to a bank will not always be enough to overcome this ‘culture shock’.

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To be successful in attracting and retaining top technologist talent over the longer-term, banks need to better understand the value proposition inherent in the tech space, i.e. not just pay and benefits, but career development focusing around product rather than promotion, the work environment, leadership and communication practices, along with the associated perks and benefits that define working for a technology firm.

When considering career opportunities, technologists working in technology firms tend to start looking at other opportunities/other sectors because of a perceived shortcoming in these softer factors, but then leave for the more attractive package the banks can offer: but it is not the monetary reward that is the initial driving factor.

This has implications for the staffing model and employee branding of bank's technology hubs if they are to present an organizational model that is attractive to technologists from outside of the banking sector. The cost benefits of doing so can be considerable.

ABOUT THE AUTHORS

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