Who wants to be an Investment Banker?

By Marc Daniel, Steven Hurd and Eric Wool
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It is no secret that investment banks are concerned about their ability to attract and retain the best talent. The fading allure of investment banking as a career, increased competition for talent, reputational damage, cost pressure, regulation, and attitudinal shifts associated with the changing of the generational guard have all contributed to what is now widely regarded as one of the biggest challenges facing the industry.

But you would be forgiven for thinking otherwise. Goldman Sachs had 267,000 applicants for 8,300 positions last year, and a 90% acceptance rate, so why is it that banks are concerned?[1]

The main reason is that the number of ‘talented’ applicants is a much smaller pool. And it’s these talented applicants that banks want to attract.

This paper will outline some of the latest thinking behind the talent shift, what banks are doing to redress the balance, and what more can be done to improve banking’s ability to attract, retain and develop its future leaders.

The old adage of supply and demand

In 2006, investment banks accounted for 8 of the 30 most desired employers in America. Last year, it was down to three.[2]

Around the same time, and prior to the financial crisis, approximately 50% of the 2007 undergraduate class and 25% of MBA graduates from Wharton (a top source of recruits) went into investment banking. In 2014, the numbers had fallen to 33% and 14%, respectively.[3]

Similarly, 44% of Harvard’s MBAs went into finance in 2007, with 12% landing a job at an investment bank. Fast forward to 2013 and the figures had dropped to 27% and 5%, respectively.[4] The University of Chicago’s Booth School of Business, London Business School and other top schools globally, have had similar declines with students increasingly looking outside of banking to forge their careers.

So where is everyone going and why?

The same schools have seen increases in outflows to technology, consulting, non-bank financial services firms - notably private equity (PE) firms and hedge funds – and non-traditional players, such as start-ups.

The drivers behind this shift in supply are multi-faceted and not attributable to any singular event, but rather a combination of events. The rising popularity of tech firms like Google, Apple and Facebook, the changing perceptions and expectations of a new generation, and the negative impact the financial crisis has had on the attractiveness of banking, have all been implicated in ‘the why’.

Attracting the best

Lured by the culture, the mission, and the opportunity to have greater autonomy and impact, tech firms are thought to have benefitted the most from recent events. Central

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to this has also been the force of strong global brands and competitive compensation structures which compete with investment banks in offering financial security and prestige – two of the top reasons for going into investment banking.

Many of the new generation of talent investment banks are trying to attract, have come of age during, and after, the financial crisis and their perceptions and expectations of what banks can do for them have changed. A recent survey of 10,000 U.S. millennials (born between 1981-2000) found that three-quarters prefer financial products from tech firms over traditional financial services firms, half are counting on tech firms to overhaul the way banks work, and the top four banks in America are among the ten least loved brands.[5]

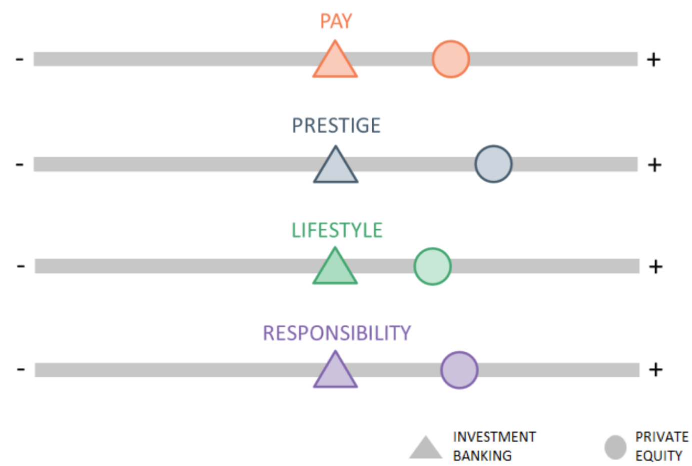
Impacted by the events of the past eight years, the attractiveness of a career in investment banking is not as strong as it used to be. Over time, banks have been forced to adapt to survive and deal with a huge range of compounding factors, such as: subdued economic recovery, geopolitical instability, public scrutiny, regulatory intervention, and litigation-fueled reputational and financial damage.

This whirlwind of change has yielded new initiatives aimed at making banks less risky and less prone to fail – from reduced leverage through increased capital requirements to industry-wide culture and conduct examinations. This has placed banks under tremendous pressure to focus on safer, more profitable and sustainable growth. In this constrained environment, margins have been squeezed and business leaders have focused on maximizing the return of a smaller slice of a smaller pie. This has been particularly apparent in Europe, due to more difficult operating conditions and restrictive regulatory intervention (e.g., bonus cap) which has given banks less flexibility to compensate a reduced and re-structured workforce.

Keeping the best

The difficulty for investment banks does not stop there either. Once they have fought to fill their ranks, they face the difficult task of retaining talent. PE firms, now seen as the most popular destination for Wall Street's junior bankers, are often perceived as a natural, more prestigious step. Last year, banks were given further cause for concern as PE firms started their recruitment process to lure talent away from Wall Street even earlier - barely six months into the job.

What is the perceived lure of private equity?



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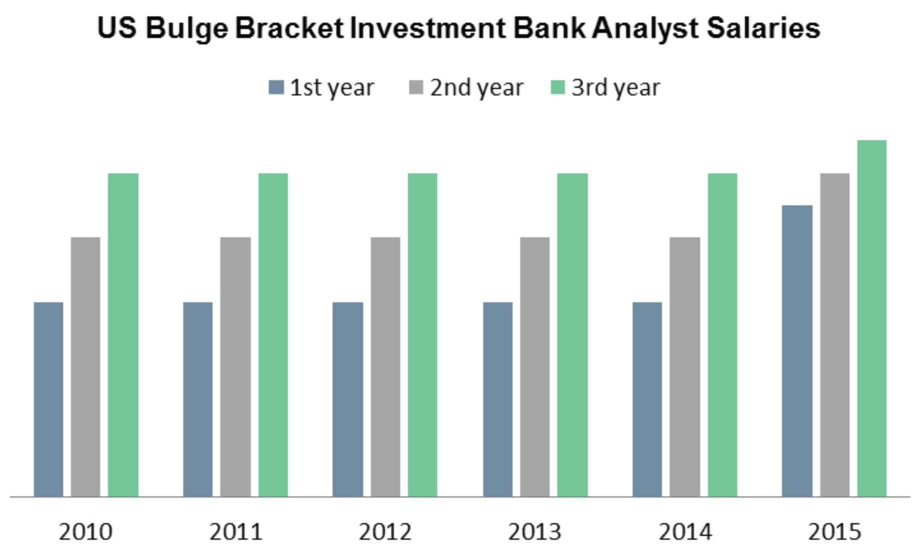
It is not only PE firms that junior bankers have their sights set on. Many graduates view, and use the Analyst program (typically lasting 2-3 years) as a stepping stone from which to build their skills through further education or by moving to other roles either inside or outside the financial services industry.

The cumulative effect of these, and other, factors have forced business leaders to examine both the financial and non-financial aspects of 'the offer' in an attempt to lure and keep talent in banking. This has led to the implementation of a number of initiatives aimed at re-aligning the offer - also known as the employee value proposition (EVP) - with broader HR and business strategies and improving a bank's ability to attract and retain the future generation of leaders.

How have banks responded?

Over the last few years, investment banks have implemented a mixture of formal and informal policies aimed at improving talent attraction and retention, including:

1. **Increased fixed-pay.** Within the investment bank, salaries have been materially increased as banks front-load even more pay. The rationale for the majority of changes made has been to remain competitive, particularly at the junior level, as intra- and inter-industry competition for talent increases. Regulatory pressure to reduce the fixed to variable compensation ratio has also prompted change.



2. **Protected weekends.** Designed to provide junior bankers with better work/life balance, a variety of initiatives have been introduced to protect juniors from a grueling, around-the-clock working culture. For some banks, senior leadership buy-in, positive feedback from juniors, and public relations pressures, appear to be driving significant cultural change. At others, juniors complain of the impracticalities or loopholes associated with protected weekends (i.e., guidelines do not apply to 'live deals'), a compressed work week, and management's failure to align policy with practice.

3. **Hiring more.** In an effort to reduce workloads, some firms have increased their intake of Analysts so that there are more resources available. Theoretically, this should free up more time for staff to take advantage of the various work/life

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balance initiatives available to them. At other firms, class size has not increased and instead there has been an effort to reduce workload through more efficient working practices.

4. **Analyst working groups.** At some firms, a collection of designated individuals, (usually senior bankers) have been appointed to work together with the stated objective of improving the career quality of junior bankers. Sometimes referred to as Chief Resource Officers, these individuals monitor the work (e.g., work volume, hours, content) of junior bankers to ensure they have a rewarding experience and are not being overburdened.

5. **Promoting long-term employment.**

   i. **Fixed-term contract removal.** Some banks have removed fixed-term contracts for Analysts in an effort to demonstrate commitment to the long-term career of juniors. Fixed-term contracts, more prevalent in the U.S., are argued to reduce perceptions of job security and focus on short-terms results at the expense of long-term interests.

   ii. **Year-end cycle.** For the majority of banks, the global Analyst intake is over the summer. This has led some firms to operate different pay and promotion cycles with the majority of a firm-wide population on a year-end cycle and a minority on a mid-year cycle. To minimize the distinctions of populations and promote a 'one firm approach', some firms have aligned, or are considering aligning, all staff to the same cycle.

6. **Learning and development.** With continued downward pressure on pay, banks have sought to maximize the return on investment of their reward spend by implementing cost-effective initiatives to improve their EVP. These initiatives (e.g., training programs, mentorships, increased client interaction and deal exposure) are designed to provide Analysts with rich learning experiences from which they can acquire the skills and knowledge to grow both professionally and personally; one of the most important priorities for the millennial generation.

These initiatives, and many others designed to improve the Analyst experience, have generally been positively received by the wider business and the Analysts themselves. The effectiveness of some programs has been limited by the misalignment of policy and practice (e.g., some Analysts finding it difficult to find the time to take off or pursue further training).

What more can banks do?

Recognizing these initiatives as a step in the right direction, we have considered six additional ways banks can further adapt to the new normal:

1. **Back-load pay.** Design pay programs for juniors that are back-loaded (instead of front-loaded) with opportunity for outsized pay. If cultivating and growing a pipeline of 'home-grown' talent is part of your business strategy, then so should longer term wealth creation aligned to individual, team and organizational performance.

   i. **Deferred pay with top-up 'sweetener'.** Employ a pay program for Analysts that rewards individuals (handsomely for the top performers) who stay with the firm beyond the program. Position it as a wealth creation opportunity and not as a compensation deferral.

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2. **Differentiate.** In an industry that is governed by homogenous practice, stand out and set your offer apart by being different, not the same. Current circular behavior among firms impedes change, rarely leads to downward fluctuations in pay, and is inherently inflationary. Use this as an opportunity to gain competitive advantage by creating a unique and powerful EVP to communicate what sets you apart from competitors and help build loyalty and commitment.

   i. **Be creative.** Do more with less by thinking outside-of-the-box. Sustained regulatory pressure and difficult economic and operating environments will continue to challenge growth and exert downward pressure on pay. Numerous studies have shown that when pay is satisfactory, non-financial rewards are more effective in motivating and building long-term engagement. Instead of an extra $5,000 then, why not offer a unique menu of top-of-the-line benefits and other perquisites to staff?

3. **Improve work / life balance.** Recent initiatives have started to improve morale but more needs to be done, particularly in aligning policy and practice. Certain pitch book tasks could be outsourced through external agencies or insourced through support functions. Collective ideas, customs, and social behaviors are ingrained and take time to shape. Mandatory time off and more ‘rules’ are less a driver of engagement than a better experience.

   i. **Embrace the new.** Investment banks have a history of tradition and formality and some practices exist, not out of necessity, but as a result of institutionalization. Consider the enormous impact practices, and people have on the perceived culture of the firm and remove counter-productive elements which are holding back broader change.

4. **Less ‘up or out’.** Every single hire does not need to be a business developer and not all will have the requisite aptitude to do so. This cookie-cutter approach does not take into consideration the huge range of knowledge, skills, and abilities that the thousands of junior hires have, or will develop. Find the right person-role fit by better recognizing the three types of functions that bankers perform:

   i. Modelling, Pitchbooks & Execution (Analyst & Associate)
   ii. Transaction Management (VP & DIR)
   iii. Business Origination (MD & DIR)

   Why then hire candidates that might have a business origination capability ten to fifteen years down the road instead of highly motivated non-entitled staff better positioned to complete the job they will be doing? There are a number of other alternative business models that will support the execution of work, less expensively, and with less turnover/disruption to the business.

5. **Cast a wide net.** One way to increase the supply of talent into banking on top of improving ‘the offer’ is to target a broader range of schools (e.g., Tier II and top State Schools) from which to recruit. This would create a bigger talent pool and would still provide banks with the opportunity to get, and keep, the best of the class. This may also provide retention benefits that would outweigh the perceived benefits of recruiting from a small, select group of schools.

6. **Long-termism.** Many leading firms are looking further into the future and adjusting their reward approach to maximize long-term competitive advantage. They are already considering a growing middle class, an ageing population, global skills shortage, disruptive technology, fierce inter- and intra-industry competition

for talent, and a new, emerging workforce. Embrace a culture and reward strategy that promotes a longer- term view on experience, growth, and wealth creation. It won’t be attractive to all staff, but that’s okay.

i. **Forward thinking.** By 2025, the majority of the global workforce will be millennials. While it is difficult to label an entire generation, there are certain characteristics and properties that set each cohort apart. Consider these in relation to who you’re trying to attract and this will help you create a more powerful and compelling proposition.

ii. **Fixed-term contract removal.** Fixed-term contracts for Analysts are not aligned to a strategy that values long-term growth. Vast sums of money are invested in the recruitment, training and development of Analysts. Having a defined period of tenure is unlikely to promote longer-term thinking and behavior tied to the firm’s overall strategy.

iii. **Integrate.** While initially time-consuming and costly, moving those Analysts on a mid-year cycle to a year-end cycle will, over the long-term, make things simpler and ensure they do not feel like a separate population within the firm. Treating factions differently creates more complexity and can cause further ‘in-group versus out-group’ division within the firm.

Conclusion

So, who wants to be an investment banker? The answer to this question has changed over time and investment banks should consider previous, current and future responses when considering how to attract and retain the talent they need.

Clearly define your employment value proposition, emphasizing the most compelling and differentiating features. It's important to focus on the areas that really matter to the people you’re looking to hire and keep, like offering career development opportunities and a flexible work environment.

Investment banks can, and do, offer an incredibly enriching and rewarding experience for many. Using these insights will help deliver an even better employment experience, attract new employees, retain top talent, drive higher levels of engagement, and improve business performance.

[1] http://www.goldmansachs.com/investor-relations/financials/current/annual-reports/2014-annual-report-files/letter-to-shareholders.pdf

[2] http://www3.universumglobal.com/2014-us-ideal-employer-ranking-mba/#.VYXqFUYsYm8

[3] http://www.vpul.upenn.edu/careerservices/reports.php

[4] http://www.hbs.edu/recruiting/data/Pages/detailed-charts.aspx

[5] http:// www.millennialdisruptionindex.com

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