

Exploding the talent myth

There is no shortage of stars in the equity, fixed-income and analytical world, but employers have no idea how to manage their investment talent and therefore they lose it, believes Amin Rajan

BY: AMIN RAJAN

EXECUTIVE SUMMARY

- Two out of every three UK investment professionals jumped ship in the three years before the current market turbulence.
- Retaining talented professionals requires an infrastructure built around empowerment whereby they can maximise their creative and tactical talents.
- Mutual misunderstanding between fund managers and their bosses has been far too evident.
- Coaching, networking and lateral job transfers – not just money – can help.

In the benign credit conditions of the past four years, many of the individual elements within the three groups have been ignored, until the current crisis ruined the party.

Mutual misunderstanding has been all too evident: bosses have seen their investment professionals as greedy and arrogant individuals with a highly inflated sense of self worth. In turn, professionals have seen their bosses as glorified bean counters divorced from the heartbeat of the investment craft. For both groups, a parting of the ways is no more than a futile chase for the next rainbow. Two factors have been at work.

First, few top bosses have been experienced in the art of change management, so the transition to the world of absolute returns was often fraught with dysfunctional tensions.

As one CIO observed: “If you put any of our CEOs in front of a team of portfolio managers, they will be torn to shreds. These people are trained sceptics: an art they use to a destructive perfection when it comes to their own bosses.”

The second factor relates to compensation. At the start of the 2000-03 bear market, around 20% of fund managers around the world linked bonus to performance. For the rest, funds under management was the main driver, ensuring that

“If it weren't for 20 key people, Microsoft wouldn't be the company it is today,” says Bill Gates. He confirms what we have long known: talent follows the familiar bell-shaped curve such that only the chosen few at the positive extreme make all the difference.

So it is time to turn the spotlight on the recent ‘talent famine’ among investment professionals – equity, fixed-income and analysts – around the world.

Two out of every three of them jumped ship in the UK in the three years preceding the current market turbulence, according to several surveys. The situation was no different in the US. Even today, there is no lull in the war for talent – or so the headhunters tell us.

Their explanation is self-serving: in the brave new world of absolute returns, clients want alpha performance, so fix the skills and the numbers would follow. If only reality was that simple.

THE TALENT FAMINE

At a time when market-driven beta remains the predominant source of returns for most investors, the implied scale of poaching conjures up the image of a vast drove of refugees fleeing reality. Who can blame them if their employers persist in deluding themselves that they are attracting stars in the war for talent – a war in which what matters is where they have

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been and who they are, not what they have achieved? This puts talented investment professionals in the same category as elitist aristocrats. The playing fields of Eton come to mind.

Talent is far more than that. It is the ability to win consistently, using either rational methods, personal intuition or both. It relies on self-motivated creativity to solve larger and bigger challenges, as implied by Bill Gates.

In fund management, the difference between skill and luck is the persistence of good performance, even though sceptics believe that it is possible to have a long lucky streak due to the laws of randomness. Investment professionals accept randomness in their failure, not success. It is thus hard to

accept that even a significant minority of today's intrepid job hoppers are necessarily ‘talented’ individuals. Some are, most are not. Of course, many more can be nurtured in that role.

Developing and retaining talented professionals requires an infrastructure around empowerment whereby they can maximise their creative and tactical talents, and where they are surrounded by like-minded professionals who share the same goals and ideals.

Without a nurturing culture, employers are unwittingly setting up their new recruits to fail. After all, talent has always been scarce in upper decile. As the market is becoming more transparent between alpha and beta, the difference between success and failure is now all too obvious. People get sucked into agreeing to deliver what investors want to hear – hence the recent rise in mandates with aggressive alpha targets.

POOR DEPLOYMENT

The pre-credit crunch exodus has far more to do with the perceived failure to deliver three sets of benefits that are vital in attracting, retaining and getting the best out of investment professionals within the environment of high performance teams (see figure 1):

- an employer brand that generates a degree of personal pride
- an interesting job that stimulates personal commitment
- a balance of hard and soft rewards.

STATS

FIGURE 1: ENGAGING THE INDIVIDUAL IN HIGH PERFORMANCE TEAMS



Source: CREATE-Research 2008

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bonus was an arithmetic certainty. By 2005, the figure had shot up to 45%, according to our studies.

With the ascendancy of meritocratic rewards, mediocrity in the front office was severely challenged. As old entitlements were withdrawn, people were left with two choices: shape up or ship out.

GET THE BEST FROM YOUR EINSTEINS

Creating the right environment is about understanding the three traits of investment professionals. To start with, they have divided loyalties: their primary loyalty is to their craft, then to their peers and then to their firms. Furthermore, they have deep technical knowledge, driven by restless curiosity, fascinated by novelty and unfettered by traditional norms. Finally, they have a high sense of individualism that makes

them intrepid job hoppers like premier league footballers. So how do you motivate them?

Successful fund houses appear to follow the famous equation: $E=MC^2$, where E stands for environment, M for management and C for communication. As a general rule, talented people prefer a light touch management and a liberal dose of open and honest communication. Of course, compensation matters, too; arguably not as much as peer recognition.

They are more interested in managing money than people. They work best in small teams with minimal hassle and bureaucracy. Too many of them working together usually results in chaos, debates and low performance. Above all, they value two things: autonomy and space within wide parameters of control; and a boss they admire.

They are no hero worshippers, but

they show remarkable deference towards those who help them achieve their goals. They prefer nuts and bolts leadership above visionary rhetoric. They are inspired by a boss who builds trust, shows respect for others and matches words with deeds.

A lot more effort is going into developing business leaders now than 10 years ago. But one lesson has yet to be learnt within the fund management industry.

It already has its own versions of the Manchester United manager, Sir Alex Ferguson – only not enough of them. But while developing them, it has to recognise that football’s history is littered with brilliant players who, it was assumed, would make great managers but ended up leading their teams into obscurity.

Yet, most great football managers such as Arsène Wenger, Sir Alex Ferguson, and Gerard Houllier were mediocre players in their youth. Zinedine Zidane played football so naturally that he hardly needed to think about it. But, as a manager, he would have been a howling failure. The message is clear: great investment professionals don’t necessarily make great leaders. Too often, they confuse the buzz of investment function with leadership.

PROFILE – FACT BOX



Amin Rajan

Career highlights:

Professor Amin Rajan is the founder and CEO of CREATE-Research, a UK-based think-tank specialising in the future trends in global fund management. It works with prominent partners to publish reports on challenges and responses in the industry. Rajan has contributed articles to the *Financial Times*, *Global Investor*, *Financial News* and *IPE*. He also offers strategic advisory and coaching services to CEOs and CIOs in global fund houses and is the author of 16 reports on different aspects of fund business. He is also a visiting professor at the Centre for Leadership Studies at Exeter University.

GOING BEYOND

SOUND BITE LEADERSHIP

So, what skills are required in fund-management firms and how can senior executives acquire them? Our studies have identified five generic sets outlined in the box. In sum, these sets mean grafting business and people skills on craft expertise.

However, research shows the graft does not work with conventional training. Who could have trained Bill Gates? He quit Harvard! It also shows that senior executives get excited only when learning addresses their immediate dreams or nightmares, or sharpens their business intuition. They also like face-to-face encounters with real-time feedback.

SKILLS – FACT BOX

- Upping the ante by raising the bar, spotting opportunities, displaying originality and promoting a can-do mindset;
- Being strategic by setting clear business goals, implementing actions and doing a reality check;
- Leading the leaders by influencing senior colleagues at all locations and creating an environment of mutual trust;
- Motivating the staff by clarifying the goals, getting a buy-in, seeking new ideas, walking the talk and listening actively;
- Delivering results by articulating a realistic value proposition for customers and orienting all staff towards its delivery.

Accordingly, numerous approaches have been tried to improve the leadership gene pool in leading fund-management firms in recent years.

The first one is executive coaching. Having the opportunity to have a regular, risk-free conversation on business or personal issues with a trusted third party – inside or outside the firm – has provided a practical sounding board. As people progress into senior positions, they need personal space to voice their doubts and concerns without appearing weak or indecisive.

The second one is lateral transfers. As part of career progression, some senior executives have found it useful to have practical knowledge of functions outside their own areas of expertise. This has not only enhanced their understanding of the value chain and the key behavioural drivers of its separate components, but it has also enhanced the quality of reality checks on the strategy.

The third one is networking – internally as well as externally. Exposure to practical case examples and ‘war stories’ from people at the sharp end have provided deep insights into what works, what doesn’t and why. This, too, has helped senior executives resolve dilemmas which tax their gut instincts more than their brain power.

Clearly, growing interest in these and other approaches underlines the point that a successful transition to the brave new world of absolute returns requires today’s senior executives to be much more than great investment professionals.

The ‘war for talent’ is a euphemism for the seeming inability on the part of many fund houses to run their businesses like normal businesses. On the other hand, successful houses have moved on by adopting some of the motivational drivers listed in the diagram above. They deploy them – rather than chequebook diplomacy - to get the best out of their people. 