

Human Capital: Thought Leadership and Best Practices in the Search for Talent

## Welcome and Background

Compensation

Recruiting

Retention

# Compensation

**2007 Compensation  
and the Gathering 2008 Storm**

***Wall Street Compensation and Benefits Association***

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**JOHNSON ASSOCIATES, INC.**

19 West 44th Street, Suite 511, New York, New York 10036

(212) 221-7400 • Fax (212) 221-3191

# **Hedge Funds – Shakeout Begins**

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- First real movements away from broad asset class
  - Over capacity and declining returns going forward
  - Short lock-up periods
  - Products oversold into high net-worth accounts
  - Distressed funds now attract assets
- Hedge fund slowing has major impacts on firms
  - Prime brokerage
  - Trading references
  - Investment banking
- Management fee and carry provide impressive economics
- Hedge funds and Fund-of-Funds have different compensations norms
  - Owners/Firm receive greater proportion of economics in F-o-Fs

## Summary and Advice

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- 2008 will be a very difficult year for compensation
- “Full Bubble Burst”
  - Communicate early with compensation committee
  - Restricted stock and one-time arrangements
  - Heavy deferrals
  - Recognize fluctuating accounting figures
  - Significant layoffs
  - Evaluate severance terms
  - Rethink executive pay paradigm
- More explicit and clear unit incentive funding formulas
- 2008 compensation for proxy executives down 30%+
- Aggressive sales compensation plans and expectations
  - Stress from high net worth due to existing risks
- Wall Street retreats from private equity
- Hedge funds and alternatives under stress
  - Work needed on compensation and business practices
- **Financial Services is a good cyclical business that will come back**

Recruiting

# The War for Talent is Intensifying Dramatically

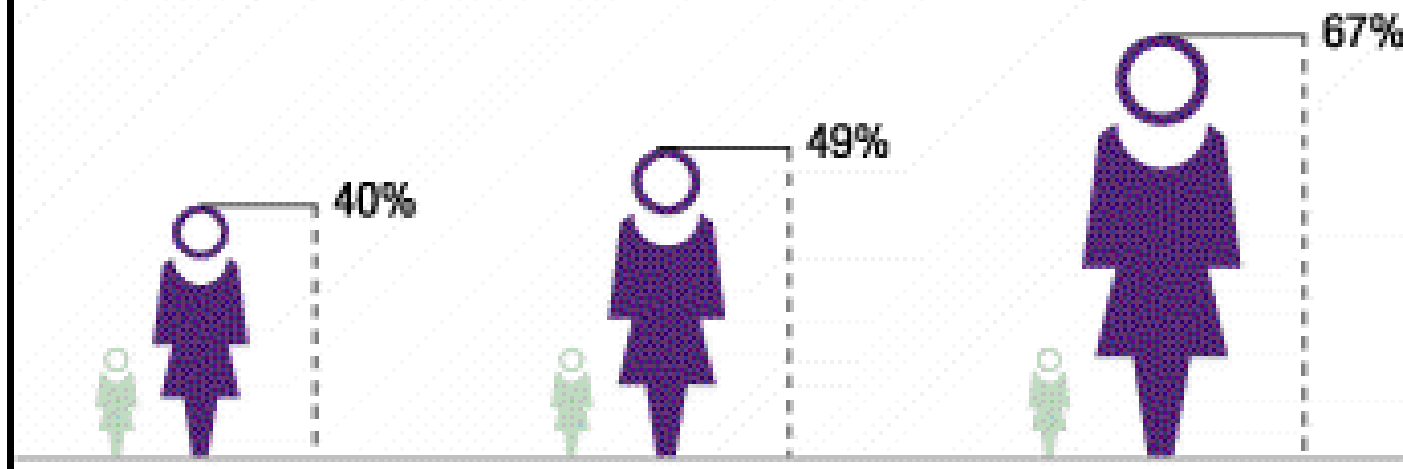
- McKinsey's update of its 1997 study found that 89% of respondents think it is more difficult to attract talented people now than it was in 1997; 90% think it is more difficult to retain them
- Only 7% of respondents strongly agreed that their companies had enough talented managers to pursue all or most promising business opportunities
- Companies doing the best job of managing their talent deliver far better results
- Researchers found that paying an additional 40% to hire an A-player could yield an overall return of 100% or more in a year

***Companies scoring in the top quintile of talent-management practices outperform their industry's mean return to shareholders by 22 percentage points***

# Good People are Great for Business

Mean of responses from 410 corporate officers

**"How much more does a high performer generate annually than an average performer?"**



Increased productivity in operations roles

Increased profit in general management roles

Increased revenue in sales roles

large US companies

# How to Win the War for Talent

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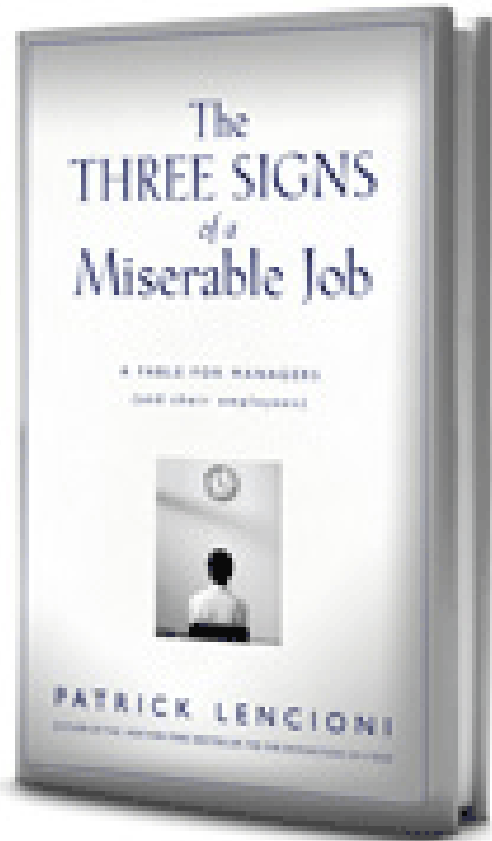
New Mindset is required!



	Old Way	New Way
Talent Mindset	HR responsible for people management.	All managers are responsible for strengthening their talent pool.
Employee Value Proposition (EVP)	We provide good pay and benefits.	We shape our company, even our strategy, to appeal to talented people.
Recruiting	Recruiting is like purchasing.	Recruiting is like marketing.
Growing Leaders	We think development happens in training programs.	We fuel development through stretch jobs, coaching and mentoring.
Differentiation	We treat everyone the same, and like to think that everyone is equally capable.	We affirm all our people, but we invest differently in our A, B, and C players.

*Source: McKinsey & Company*

Retention



Many factors affect retention.

The author suggests these are the key ones:

- Anonymity
- Irrelevance
- Immeasurement

# Definitions

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- Anonymity - being unknown or unacknowledged  
“It is immensely more difficult to leave an organization when you feel others know and understand you as an individual.”
- Irrelevance - state of being unrelated to a matter being considered  
“Do I make a difference?”
- Immeasurement – Not being compared against an objective standard  
“People do not want their success to be depend on the subjective opinion of another human being because this can force them into posturing and politics. They want a way to have an intrinsic sense of accomplishment.”

# The Case for Onboarding

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David@BloomandCo.com

- Delivers on the “Employment Promise”
  - Leverages the Career Brand
  - “Closes the deal” begun during recruiting
- Rapidly aligns the new hire with strategic direction, vision and mission of the firm
- Accelerates employee productivity
  - 2 month gain (Texas Instruments)
  - Meets new hire desire to do meaningful work from the get-go
- Enhances retention and minimizes unwanted turnover
  - 69% more likely to be with company after 3 years (Corning Glass)
- Cultural tool that turbocharges
  - Business knowledge; Teamwork; Networking; Zeal for job and employer

## Questions and Comments

Thank you for coming this morning.