

**TALENT PORTFOLIO MANAGEMENT:**  
LEVERAGING HUMAN ASSETS IN INVESTMENT BANKING  
AND CAPITAL MARKETS

by Paul Aldrich

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# EXECUTIVE SUMMARY

- ▶ Measures for a company's talent are now firmly on the boardroom dashboard;
- ▶ These measures are geared to boosting company performance and informing stock analysts, not satisfying regulatory reporting requirements;
- ▶ Acquisition and retention challenges are accentuating the trend towards a strategic and measurement-based approach to talent management;
- ▶ Companies that neglect measures and a strategic approach to managing their human resource risk losing the war for talent;
- ▶ Many senior human resource professionals are now credible business partners;
- ▶ A measurement-based approach can put an end to managerial 'fads';
- ▶ Theory and practice are coming together in talent portfolio management.

The vast bulk of the current and future value of organisations in the capital markets and investment banking sector is bound up in the experience, knowledge, social networks and commitment of the people currently employed. Historically acquired assets such as access to markets or technology infrastructure, though important, are of relatively less influence than the performance of the talent hired and developed by the organisation. Despite this, metrics for capturing the value and the return on investment (ROI) of the talent base have only recently begun to be adopted.

Although external human capital reporting remains the exception, in the past two to three years there has been sharply increased activity in the use of internal metrics to gauge the effectiveness of the talent portfolio in the capital markets and investment banking sector and significant integration of the human resource function with business decision making through the use of human resource business partners. The research in this report reveals this growth, and shows that this has been market driven.

Research for this report falls into two phases: interviews with leading organisations in the capital markets and investment banking sector over the period 2001-03, and a follow-up series of interviews in spring 2007. There was a marked increase in use of human capital measures and 'business-human resource integration' reported in the follow-up interviews.

It would be complacent and misleading to assume that, given the decision by the UK Government in autumn 2005 not to implement the 2003 Kingsmill Report<sup>1</sup> recommending formal human capital reports in the annual accounts, that initiatives in this direction have come to a halt. Quite the contrary: research prepared for this report shows that they are actually accelerating, owing to a range of factors. These are:

- ▶ A growing awareness that business experience and intuition in managing talent are better informed when supported by metrics;
- ▶ The desire to avoid human resource 'fads' by better understanding which interventions actually add value to the business;

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<sup>1</sup> For details of this and all other works referenced in this report, see the Appendix 'Selected further reading' at the end of the report.

- ▶ The growing weight of work by academics and consultancies, creating both an ideology and a methodology for human capital measurement. Theory and practice are coming together;
- ▶ Improvements in human resource software, making more people-related data economic to gather and easier to view and manipulate;
- ▶ Maturing of efforts begun in the late 1980s and early 1990s, by David Ulrich and other academics and business consultants, to emphasise the importance of credible human resource professionals playing an active role as business partners. Case studies in this report conclusively show that this development has occurred at organisations in the capital markets and investment banking sector;
- ▶ Demographic pressures and the war for talent, encouraging measures and tactics designed to retain and motivate the best performers; a recognition that money cannot always provide sufficient leverage on its own;
- ▶ Regulation of financial services, particularly (in the UK) the Financial Services Authority's N2 rules putting emphasis on probity, vetting and management of individuals and teams.

There are some indications of pressure from investors for more information on human capital, and in the background there is the possibility at some future date of reporting requirements in the UK; these already exist in a limited form in France, Germany and Scandinavian countries. However, external factors appear to be of lesser impact.

In the cases where sophisticated human capital metrics are being developed and used at organisations covered by the survey for this report, overwhelmingly they are for internal purposes, with limited information appearing in annual reports or other external media. Senior management committees now consider matters such as: turnover of upper-quartile performers; employee climate surveys; asset value of key individuals, and statistical modelling of the internal market for talent. Human capital measures are now firmly on the managerial dashboard. The internal focus of these measures indicates that they are used solely to enhance organisational performance, not as part of an employer branding exercise, nor as a reaction to the (stalled) initiative in UK governance to require human capital measures as part of company reports. This focus on measures to drive internal performance also indicates that the extent of human capital-related measures may have been under-estimated, certainly in this sector. In one case study in this report, the CEO presents human capital measures to stock analysts.

Retail banks have introduced human capital measures more thoroughly than organisations in the capital markets and investment banking sector, and have often done so very effectively, with more transaction-based operations lending themselves easily to statistical modelling that maps relationships between staff turnover, performance and other measures with branch-by-branch business results. Adoption of such measures by employers in the capital markets and investment banking sector came later, but this report shows that adoption has accelerated in the past two to three years. This report presents an analysis indicating that while implementation in the capital markets and investment banking sector is perhaps more difficult than in the case of retail banks, it is potentially even more lucrative, because the proportion of current and future value held in the talent employed, as opposed to historically generated assets, is even greater.

There is a warning to employers that do not manage talent strategically, or adopt measures to gauge the effectiveness and sustainability of their talent portfolio. This is where most of the value lies in the capital markets and investment banking sector, and those that neglect such an approach risk being left behind, and may even suffer a negative impact on their market capitalisation.

Organisations in the capital markets and investment banking sector possess formidable skills in organisational analysis and statistical modelling, which form the key skills required for measuring human capital. For the most part, the skills have not traditionally resided in the human resource function, and this may partly explain the slowness in adopting talent related metrics. However, the presence of in-house skills, indicates that organisations in this sector may not require as much assistance from external consultancies as others.

There is now a body of knowledge, and a supplier base, for human capital measures which can be used as part of a strategic approach to the management of human resources. Some measures have an established track record in organisations, while others remain unproven. Between them, however, academics and consultancies have established a methodology and an ideology around human capital measurement, with the following key features:

- ▶ A criticism of the historic over-reliance on cost, headcount and turnover as measures for the talent portfolio;
- ▶ A recognition that human capital is different from other types of capital: it is not owned by the business; it is an asset with legs;
- ▶ Responsibility for human capital spreads across the organisation, with a particular concentration in the line managers who manage people on a day-to-day basis;
- ▶ A mix of quantitative and qualitative measures appear to provide the best platform for effective approaches in this area;
- ▶ The principle that human capital measures inform executive decision-making alongside other measures, and that judgement is still required;
- ▶ The importance of recording indicators that are relevant to the business, rather than being limited to those that have been used historically, or are most easily recorded;
- ▶ Measures have to take account of the dynamic and changing nature of a business, with care taken to interpret and identify trends. Talent portfolio measures can be lead business indicators, unlike the financial accounts, which are historic;
- ▶ Commitment to systems thinking – that is, a recognition that an organisation is subject to social complexity, where many different parts interact with others continually, sometimes in unexpected ways, and that people-related strategies cannot be adopted in isolation from business strategies.

There are indications that stock analysts are beginning to consider measures that relate to the talent portfolio: buy or sell recommendations are now more likely to rest in part upon measurements of path-dependent, complex and inimitable capabilities, for which the talent portfolio of any bank is a prime example.

Many human resource functions now have strong business partners, working closely with senior executives who treat talent management as a strategic matter. Research for this report reveals that the much-discussed 'ideal' of chairmen/CEOs and other

senior business managers treating people-related investments as a core, strategic issue, backed by human resource business partners who understand the business, is becoming a reality in some organisations in the capital markets and investment banking sector. The research extends earlier studies by stating the key attributes that enable a human resource business partner to be credible and therefore have impact on business decision-making.

There is now several decades-worth of research establishing strong correlations between superior management of the talent portfolio, employee engagement, and better business returns. Some statistical modelling suggests causal links, in addition to correlation, between high engagement human resource practices and an improvement in the bottom line. In the findings of one specialist research consultancy, with 30 years-worth of data, it is stated that: “In all probability, the lines of causality work both ways”, in other words, organisations that are well managed are likely to be enlightened in their management of the human resource environment. Measuring the return on human resource interventions also ensures accountability and helps to protect organisations from being driven by management fads such as total quality management in the 1990s.

This report describes treating talent as an investment, rather than as a cost, supported by human capital measures. The approach is defined as ‘talent portfolio management’ and represents a fundamental change in strategic people management, with implications felt throughout the organisation. The research for this report, illustrated by the case studies, strongly indicates that talent portfolio management allows senior business managers to better understand the organisation’s human resource environment and take tactical and strategic people-related decisions which will deliver superior business returns, sustainable competitive advantage, and support the stock value of their institutions.

## The author

**Paul Aldrich** is a Partner and member of the Financial Services Practice of CTPartners, a premier executive search firm committed to performance, quality and results. Paul's global perspective and keen assessment abilities are drawn from his experience as an industry executive and search consultant in the major financial centres. He has a particular specialism in primary and secondary capital markets.

Paul's corporate career has provided him with a blend of global consulting and industry experience, the basis for his deep understanding of diverse cultures and talent requirements. Previously, he worked for Price Waterhouse's London office as a member of the banking sector team. He later accepted a position with Chase Manhattan Bank, leading a team responsible for the capital markets and investment banking business and was involved in assignments in every major trading centre in North America, Europe, Asia-Pacific, and Australasia. During this time Paul also provided financial market product training for the Federal Reserve and the Bank of England.

Paul received an MBA from Durham University, and is currently pursuing a Doctorate in Business from the same school; his thesis, "The role and influence of human resource management in the capital markets and investment banking industry", informs Paul's understanding of the talent management challenges faced by his clients.

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Headquartered in New York, CTPartners has offices in Bogota, Boston, Caracas, Chicago, Cleveland, Columbia, Geneva, Hong Kong, Jerusalem, Lima, London, Menlo Park, Paris, Singapore, and Washington, DC.

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