SpencerStuart

Warding Off Disruption

How Incumbent Canadian Financial Institutions Can Attract (and Retain) Innovative Talent

With the increased growth of fintech companies, large Canadian financial institutions face the distinct threat of disintermediation. These smaller, more nimble organizations have sought to disrupt traditional financial services or enhance the products/services/operations of incumbent institutions. In an effort to adapt to this new environment, the larger institutions are investing hundreds of millions of dollars in improving digital capabilities, revamping their legacy systems and creating in-house innovation centres. For example, one of the Big Five banks committed to a nine-figure investment in digital capabilities in 2017 and looks to invest three times that amount by 2020. The other four large Canadian banks have all made similar investments and established notable partnerships with accelerators. This level of investment demonstrates a shift in strategy for the financial services incumbents, with a clear focus on building technology and stoking innovation.

Whether these incumbent financial institutions have the requisite talent to continue to dominate a rapidly changing, digitally oriented marketplace, however, is a different story. In a talent market where the demand far outpaces the supply, a critical challenge for these organizations is establishing a truly innovative and differentiated culture in this ever-changing digital environment. Finding and retaining transformational talent can be a challenge if companies are not truly innovative, rather than trying to be seen as innovative. While the disintermediation of the market has been debated, there is no denying that the emergence of fintech is having a disrupting effect on the talent model of the incumbent organizations.

In a talent market where the demand far outpaces the supply, a critical challenge for these organizations is being seen as innovative and competitive in this ever-changing digital environment.

Additionally, experienced senior financial services talent with a depth of expertise in areas poised for disruption often lack the intrinsic qualities (e.g., innovation capacity, appetite for risk) required to shape strategy at a "digital" speed. As a result, incumbents find themselves competing for innovative talent in a small market and are employing a "build it and they will come strategy" with their investments in office space dedicated to fostering innovation.

With these factors in mind, here are some observations from our client work and industry discussions that can help large organizations attract and retain the talent necessary to innovate and remain competitive in a shifting landscape.

ESTABLISH A COMPELLING VALUE PROPOSITION

Given that financial institutions typically have greater resources than fintech companies to support recruiting efforts, the incumbents' challenge has less to do with their capability to recruit and more to do with proving why they have the right environment for innovative talent to succeed. Traditional institutions should demonstrate that they have fostered a culture that not only accepts, but also encourages, people to fail fast, learn and continue to innovate.

Incumbents can take the following actions to signal to the market that they can offer opportunities to join highly innovative areas within the organization that have a higher tolerance for risk than traditional banking environments:

Partner with fintech companies

Traditional financial institutions need to prove that they are truly invested in the growth of the fintech ecosystem, creating new processes and procedures that help accelerate the RFP and partnership agreement process. A number of U.S. banks have made similar public commitments and have shortened this process from 12 months to three, which signals their ability to lessen bureaucratic processes and prioritize innovation. Incumbents looking to acquire fintech startups would do well to learn from the consolidation of the advertising industry in the early 2000s, when a number of larger agencies acquired smaller independents — only to see these acquisitions fail because the innovative independent culture was not protected and the smaller agencies were not equipped to service the large company clientele.

Offer secondments for talent to work in fintechs

By offering secondments that allow talent to work for smaller fintech companies, institutions will help transplant innovative talent and culture back into their organizations. This open-minded perspective to talent-sharing demonstrates the bank's support of the fintech "ecosystem" by infusing experienced talent into growth-stage organizations that need specific skill sets but may not have the capital for full-time employees. The most obvious example of this would be sharing talent with fintech companies that banks have partnered with, but another option could be developing a database of talent that would be interested in taking a "practicum" with a fintech business and opening that database to members of the fintech community, who would be able to request specific talent.

Invest to "upskill" current talent across the organization

Banks should devote resources to talent across all functions, but prioritize those where the business may be directly impacted by the growing fintech sector. This allocation can come in the form of dollars, by identifying technical skill gaps and investing in additional training or education; or in time, by providing employees the opportunity to attend conferences and meet-ups — even during working hours. This effort will also be a factor in retention, as talent will be incentivized to stay in a company where they feel they can learn and advance.

Focus on innovation — but not at the expense of execution

Incumbents that have made large investments in digital labs and innovation hubs must ensure that they bring products to market and synch these innovative areas with the overall organization. Production is the hallmark of innovation, so it is not enough for a company to simply build an innovative workspace or campus, then make the statement that they are now innovative. Rather, incumbents must produce innovative products and services that the market knows about, finds valuable and can access. But if that is happening while the rest of the organization looks on, the return on investment has not been maximized and prospective talent will be able to identify the disconnect across the business.

Establish a compelling value proposition

» Partner with fintech companies

» Offer secondments for talent to work in fintechs

» Invest to "upskill" current talent across the organization

» Focus on innovation — but not at the expense of execution

SUCCESSFUL APPROACHES TO TALENT ACQUISITION

- Consider acquihires
- Explore multinational organizations in different sectors
- Recruit like a well-funded startup

USE NON-TRADITIONAL MEANS TO FIND TALENT

Locating top-tier talent requires innovative thinking that goes beyond the traditional sources. Successful organizations we have worked with seek talent in unorthodox places and have branched out into other sectors. They also streamlined the hiring process, emphasizing the candidate experience and reducing their time to offer.

Other successful approaches to talent acquisition we have seen include:

Consider acquihires

The Business Development Bank of Canada expects as many fintech companies to be established in the next three years as were in the last decade. Many will fail, but the talent in those organizations will have gained invaluable experience. Banks should track these growth-stage companies and consider acquiring talent from fintechs that struggle to raise capital and continue to operate in order to quickly infuse a specific part of their business with non-traditional talent.

Explore multinational organizations in different sectors

It is not just the fintech companies that are a threat to traditional financial institutions — it is also, and even more so, large global technology companies such as Google and Amazon. For example, when Alibaba introduced and grew alternative payment platforms, it is estimated that China's banks lost out on $22 billion in potential transaction fees in 2015 as consumers shifted from traditional payment platforms.[1] Large financial institutions have the means to recruit international talent, so they should be looking for talent within multinational corporations that is experienced in navigating large, matrixed organizations and can bring best practices in customer experience, design and innovation, rather than solely industry expertise.

Recruit like a well-funded startup

As recruiters, we are increasingly seeing candidates self-select out of processes that involve too many decision makers or drag on for too long. Talent that is being courted by both fintech startups and traditional financial institutions tend to consider more than the title or compensation. Cultural fit is a significant

1 Kapron, Zennon. "China's Banks Lost $22B to Alibaba and Tencent in 2015, But That's Not Their Biggest Problem." *Forbes*, March 6, 2016.

decision-making factor and the interview experience itself can be a reflection of a company's culture. Those organizations that have a federated model of decision making and draw out the process are not reflective of an agile, quick-to-market work environment. Traditional financial institutions should consider how they can model their recruiting process after that of a startup — quick to market, focused and with few decision makers. Otherwise, they risk losing high-potential candidates simply because the process is too byzantine.

CONCLUSION

The changes brought on by technological innovation have dramatically affected the traditional financial sector. Due to the disruption of their talent pipeline, traditional incumbent organizations can no longer rely on their reputation and cachet as a competitive recruitment tactic. Instead, they must seek to become more nimble — and attract and retain the talent that can innovate within larger organizations. This requires unorthodox thinking and the desire to look beyond the standard sources for talent. A compelling value proposition as to why traditional financial institutions are indeed infusing their culture with innovation will serve to support both the recruiting and retention efforts.

Traditional financial institutions would do well to develop long-term retention policies that will make high-level talent want to stay with the organization. Without a retention strategy, organizations run the risk of recruiting and training innovative talent — only to have it leave a few years later for a more compelling opportunity. As recruiters, we are witnessing a shift in what is becoming the norm of acceptable loyalty: talent is becoming empowered to make a transition from one organization to the next without consequence. Exit options are growing, which underscores the imperative to develop a purposeful recruitment and retention talent model.

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