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## **A WHOLE NEW BALL GAME**

On Wednesday, I had the pleasure of attending the ACG M&A Conference in Boston. I was looking forward to the entertaining luncheon comments of the scheduled speaker – Michael Lewis. His previous book – *Liar's Poker* – was an interesting read and I've suggested it to more than a few folks who wanted to know what investment banking would be like if they jumped in as a career.

Michael's keynote speech turned around his research for his recent book – *Moneyball* – which looked at the Oakland A's efforts to exploit the inefficiencies in the marketplace as it applied to baseball. I have to admit, I'm not a whiz kid on baseball and, until I heard his comments, I couldn't have imagined what the "marketplace" had to do with baseball at all. By the end of his speech, I had jotted down a number of similarities between what Billy Beane discovered in the realignment of his views of "talent" for the A's and what interesting inefficiencies we've noted in the market for "talent" in the financial services industry.

The major league sports industry is well known for its highly publicized top dollar player salaries. Conventional wisdom long held that big name, highly athletic hitters and young pitchers with rocket arms were the ticket to success in MLB and that teams had to pay through the nose for that talent to be a winning team. Not too unlike the current conventional wisdom in financial services recruiting. Just watch the articles in the *Wall Street Journal*, *New York Times* and even many of the industry trade magazines for the financial services industry – regular articles appear touting enormous paydays, salaries and bonuses for Wall Streeters and you'll see the same perception presented to the general public. Real estate agents, car dealers and loads of related industry groups are well aware that following year end bonuses, the folks in financial services have plenty of cash to splash around. Recent articles debating whether carried interest should be treated as capital gains, creating lobbying organizations to preserve the favorable tax treatment on that carry, and detailing lavish birthday parties by financial services professionals have made it well known to the "regular folks" out there that being in the private equity or hedge fund space is the way to the good life. Look at the heavy influx of candidates to business schools and the percentage of undergraduates choosing some form of financial services as a career path for wealth and prestige.

Starting salaries have escalated on The Street, in private equity firms and hedge funds for several years and the oft-quoted reason for leaving a position is that the person is "under-compensated." Similarly, firms are competing for the same talent and for years have been steadily ratcheting up the compensation for "top" candidates.

Listening to Michael Lewis' presentation, I wondered whether there is a similar shift in the recruiting paradigm that is due. It made me reflect upon recent interviews with

clients and candidates and how we might be able to help the folks we work with find new ways to approach recruiting and actively strengthen their benches.

I recently met with a firm who described their “ideal” candidate to me, detailing only two specific schools they would recruit from, setting specific sky high GPA and SAT requirements and other components of their search. After listening carefully to the members of the team I was meeting with, I noted for them that although the firm was quite successful, not a single one of them had come from that specific background that they had outlined and I asked them how they had come to this description of the ideal candidate. The answer was “because it’s what everyone else is hiring and we want to get the best folks out there” and it surprised me.

Isn’t the very uniqueness of private equity that it is entrepreneurial? Weren’t the folks who created the early successful private equity firms innovators who were able to look for niches and inefficiencies in the marketplace? Isn’t the touchstone of private equity’s success finding that “new” thing before everyone else does? Why, I wondered, does that not apply in building out your own team? Why would any firm want to hire precisely whom everyone else was hiring? Would these same firms be out there bidding on deals, just because it’s what every other firm was chasing, without regard for whether it really fit their market niche?

Later in the day, discussing the concept with several people at the ACG conference, they uniformly told me their firm doesn’t recruit that way, that they’re different. I inquired what the characteristics of the “perfect” candidate were for their specific firm. I was surprised how many times the answer was “smart”, “aggressive”, “top analytical and execution skills” and the ever-popular “fit” card. When pushed for specific measures to evaluate candidates on any of these great buzzwords like “smart” or “fit”, few people could give me tangible things they look for. Sometimes using certain GPA’s, schools or SAT/GMAT scores for “smart” – but when pressed further, they admitted that often there were people in their firm who didn’t fit those specific things either and yet they considered them “smart” and that it all came down to their “gut instinct” in hiring.

Admittedly, making hiring decisions is often subjective. But don’t firms have criteria they judge their deals by? And, when a firm makes a deal that doesn’t fit the profile, don’t they have an articulated basis for it? Or is it really all “gut instinct”? Billy Beane realized that in baseball, too often other teams were making player hires because it’s what all the other teams were doing and that player salaries were being set without objective, measurable components, allowing that part of the club’s expenses to spiral out of control. I’d say much of that has happened in this industry too. Firms compete for the same candidates without regard for whether that’s what will make their team stronger, it’s just what they think other firms are hiring and so they want one, too. Salaries are set because it’s what everyone else is paying for that type of player, whether or not that player really enhances the team, and players set their own self-worth based on what they’re paid, not what experience they get and how they fit into the team strategy.

Don't get me wrong; I'm not advocating that firms hire people who are exactly like the people who are already there. Nor am I suggesting that you should never hire someone who is like a great player you saw on another team. Nor do I think that it's sensible for firms to try to lowball on compensation just to save a buck. What I am wondering is whether it's sensible to follow the crowd when building your team? There is often a chuckle I hear among the "old timers" that they'd never be able to get the jobs they hire the young people for because it's so competitive now. I wonder what firms will look like 10 years from now if they are hiring cookie cutter candidates, instead of thinking outside the box and finding the unique niche that each person on a team can fill to really round out the stable and make sure the team is cutting edge in making advantages in finding and executing deals. Will private equity teams evolve? Will there be the young, animated, bootstrappers to take the industry to the next level if we screen out real, raw talent in favor of those who meet the beauty contest standards only?

Michael Lewis made a humorous comment about how in the Oakland A's locker room, you'd have never guessed that these guys were professional athletes b/c they each had some obvious physical flaws and didn't "look the part" on the outside but that the team management had selected each player for the unique, hidden thing that each fellow brought to the team as a whole.

What would private equity teams look like if management made those thoughtful, considered decisions about both rookies and experienced players alike for their teams? If they didn't just look for the 4.0, Ivy League, bulge bracket candidates but instead used the considered judgment of a professional recruiter to help them identify innovative, crafty, sometimes lumpy looking folks with hidden resources who could really help the firm to set itself apart from the pack.

I'd say that, with the insight of a dedicated, insightful recruiting professional and a step back from the existing pack mentality of recruiting, private equity teams could really find that creatively and consciously building their team could make firm profitability and the process of distinguishing themselves from the pack a whole new ballgame.

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