



CONVERGENCE

OPTIMAL PERFORMANCE

**Infrastructure Alpha Series
Human Resources/Talent Acquisition
A Practical Guide to Implementation
John Phinney in conjunction with
The Resource Collaborative
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Introduction

Infrastructure professionals responsible, in whole or in part, for conducting human resource functions perform work critical to the successful start-up and ongoing management of alternative asset management firms of all sizes. Yet their ability to objectively measure the financial value of their work, what Convergence calls “infrastructure alpha”, is less obvious than the financial value created by investment professionals. In most firms, determining whether human resources is doing a “good job” is more subjectively than objectively measured and when they perform poorly, well its quite obvious. Using infrastructure alpha to monitor HR’s progress will help them optimize their performance.

It’s surprising that so many alternative asset managers fail to invest more effort into developing their human resources competencies earlier in their growth cycle because the cost of ineffective HR functions, particularly in this market, can devastate the growth plans of start-up managers and needlessly burn scarce financial resources in firms of all sizes. The prevailing approach with most small start-ups is to simply get their first generation staff in place, raise money and deliver strong performance before revisiting initial staffing decisions. While we understand the pragmatic side of this argument, we believe this thinking is short-sighted and can be counter-productive, meaning, it can keep you from delivering investment and infrastructure alpha. Founders and other C-Suite executives should encourage those responsible for performing HR functions to implement programs, activities and initiatives whose financial value can be objectively measured and managed in real-time, rather than waiting for an event, which is typically negative, to examine this critical function.

Convergence and “The Resource Collaborative”, a consulting firm offering talent acquisition and organizational management services, teamed up to describe an approach that Talent Acquisition professionals can use to generate and measure the infrastructure alpha they create for their firms. We lay-out simple and understandable **key performance indicators** (KPI) and **baseline**

measures and costs needed to measure Talent Acquisition infrastructure alpha. Introducing infrastructure alpha in this way, emphasizes the importance of the talent acquisition function and takes it from being a “soft” function to allowing it to be measured and managed similarly to measuring the contributions made by investment colleagues.

The Critical Relationship between Human Resources and Infrastructure Alpha

Human resource professionals are responsible for ensuring the firm can identify, attract and retain the professionals needed to deliver value to clients. This HR function is often referred to as Talent Acquisition. Take the case of a very successful “star trader” who left a blue-chip investment bank to start his own firm. After five years, the firm burned through no less than 3 CFO’s¹ and 2 CRO’s². At his prior firm, its highly regarded HR function provided a world class set of services that he did not recognize he needed when embarking on his own. When discussing this issue with Convergence, this professional conceded that “HR is hard work and it was something that I just took for granted at my prior firm, I simply did not invest enough time into getting it right and I paid the price for it.” While the financial cost of HR missteps cost his firm millions of dollars, the impact on investors was perhaps more acute because his firm took twice as long to reach key assets under management (AUM) milestones than projected.

In our first introductory paper “A Practical Guide to Creating and Implementing Infrastructure Alpha” we introduced the marginal contribution to profit (MCP) approach measuring and managing infrastructure alpha within Investment Operations. We will continue to use this approach for HR’s Talent Acquisition function. MCP is created when human resources professionals reduce the unit cost of a particular unit of work without reducing quality or increasing business risk.

Step 1: Key Performance Indicators

The key performance indicators selected by the firm and human resources will be a function of the length of time it has been in business, the size and complexity of its business model and the market conditions in which it operates. For example, a firm that is new will focus more heavily on talent acquisition and in all likelihood the function will be performed by the key founders. In these cases, it is even more important that the founders measure the investment of time and money spent identifying and attracting talent so they can measure future efforts.

Key Performance Indicators		
Identify Talent	Attract Talent	Retain Talent
- Establish programs to identify and introduce top industry talent to the firm	- Actively recruit and attract talent to the firm leveraging talent identification programs	- Establish competitive programs to keep key talent motivated and focused on the business

Step 2: Establish Baseline Activities

¹ Chief Financial Officer
² Chief Risk Officer

Define a small list of “baseline activities” that map to your Key Performance Indicators. This will help you quantitatively measure performance. Baseline activities should be a list of activities that are performed consistently. While they may change from time-to-time, they should be less project specific and more associated with the details contained in the process of performing a function... They should not be a list of “tasks” needed to fulfill the specified activity.

Key Performance Indicators		
Identify Talent	Attract Talent	Retain Talent
Baseline Activities		
- Identify and track industry talent - Contact and build initial relationship - Introduce industry talent to the firm	- Develop appropriate candidate slate - Manage effective interview process - Make offer and land candidate	- Compensation and Benefit Programs - Staff Development Programs - Culture Development

Step 3: Baseline Activity Measures

Baseline activity measures must represent the “output, or evidence” of the activities performed and you must be able to establish the cost of the activity. So the message is keep them short and simple. In this example, to establish baseline measures for the “Attracting Talent KPI” we suggest two easy measures to capture the output of the activity; “Interviews and Hires.”

Key Performance Indicators		
Identify Talent	Attract Talent	Retain Talent
Baseline Activity Measures		
- # Industry talent tracked - # Industry talent qualified	- # Industry talent interviewed - # Industry talent hired	- Staff Turnover Levels - Staff Satisfaction Levels

Step 4: Baseline Activity Costs

Baseline activity costs represent the amount of time and cost associated with the activity measures associated with your HR KPIs. We would suggest that you use firm-wide hours and the average cost per hour of those involved in the interview and hiring process.

Key Performance Indicators		
Identify Talent	Attract Talent	Retain Talent
Baseline Activity Costs		
- Hours spent tracking industry talent	- Hours interviewing industry talent	- Cost of staff turnover
- Cost spent tracking industry talent	- Cost to interview industry talent	- Cost to manage employee satisfaction

Step 5: Formula for Measuring HR Infrastructure Alpha:

Let's assume that your HR function implemented new initiatives to increase the efficiency of identifying and attracting industry talent to the firm. According to HR, these programs have reduced the amount of firm-wide interview time per candidate and allowed them to renegotiate the commissions paid to employment firms. While these activities are commonplace at most firms, did this HR group create infrastructure alpha and if so, how much did it create?

$(\text{Change in Unit Cost}) \times (\text{P2 Volume}) = \text{Marginal Contribution to Profit (MCP)}$

	Data	P1	P2
A	Hires	2	3
B	Interview Hours Per Job	10	8
C	Total Interview Hours	20	24
D	Cost per Hour	500	500
E	Internal Recruiting Cost	10,000	12,000
F	Internal Cost per Interview	5,000	4,000
G	Recruiting Fees Paid	40,000	40,000
H	Recruiting fee Per Hire	20,000	13,333
I	Total Cost per Hire	25,000	17,333

J	Change in Unit Cost J-(P1-P2)	7,667
K	Period 2 Volume of Hires A(P2)	3
L	Marginal Contribution to Profit (JxK)	23,000

Human resources implemented a series of new activities. In this example the interview process was streamlined and recruiting fees were renegotiated. These new activities created \$23,000 of MCP for the firm.

Conclusion

HR's Talent Acquisition activities are critical to building companies and making them competitive. Strong and focused HR functions can save their company time, money and reputation. Measuring the MCP of HR's various functions is an objective way to measure HRs financial contribution to the firm.

About Convergence

Convergence's platform provides data, benchmarks, analytical tools and models and advisory services to infrastructure professional working in today's fast growing and complex alternative asset management market. Our clients include the world's leading asset managers, audit firms, administrators, colleges and universities and investors all of whom contribute to our product development agenda.

Convergence's leaders have helped the most complex investment organizations grow by implementing people, process and enabling technology that's created infrastructure alpha.

The Resource Collaborative has been offering services in organizational management and talent acquisition for over 20 years, focusing primarily within the financial services sector. Their clients include some of the world's largest asset management firms and sector leaders. TRC's leaders have distinguished careers in the building and management of superior teams within asset management environments.

For more information on how we can help you create infrastructure alpha please contact John Phinney @ jphinney@convergenceinc.com, George Evans @ gevans@convergenceinc.com, Joe Dello Russo @ jdellorusso@convergenceinc.com or Ellen Shepard @ ellen.shepard@trcollaborative.com.