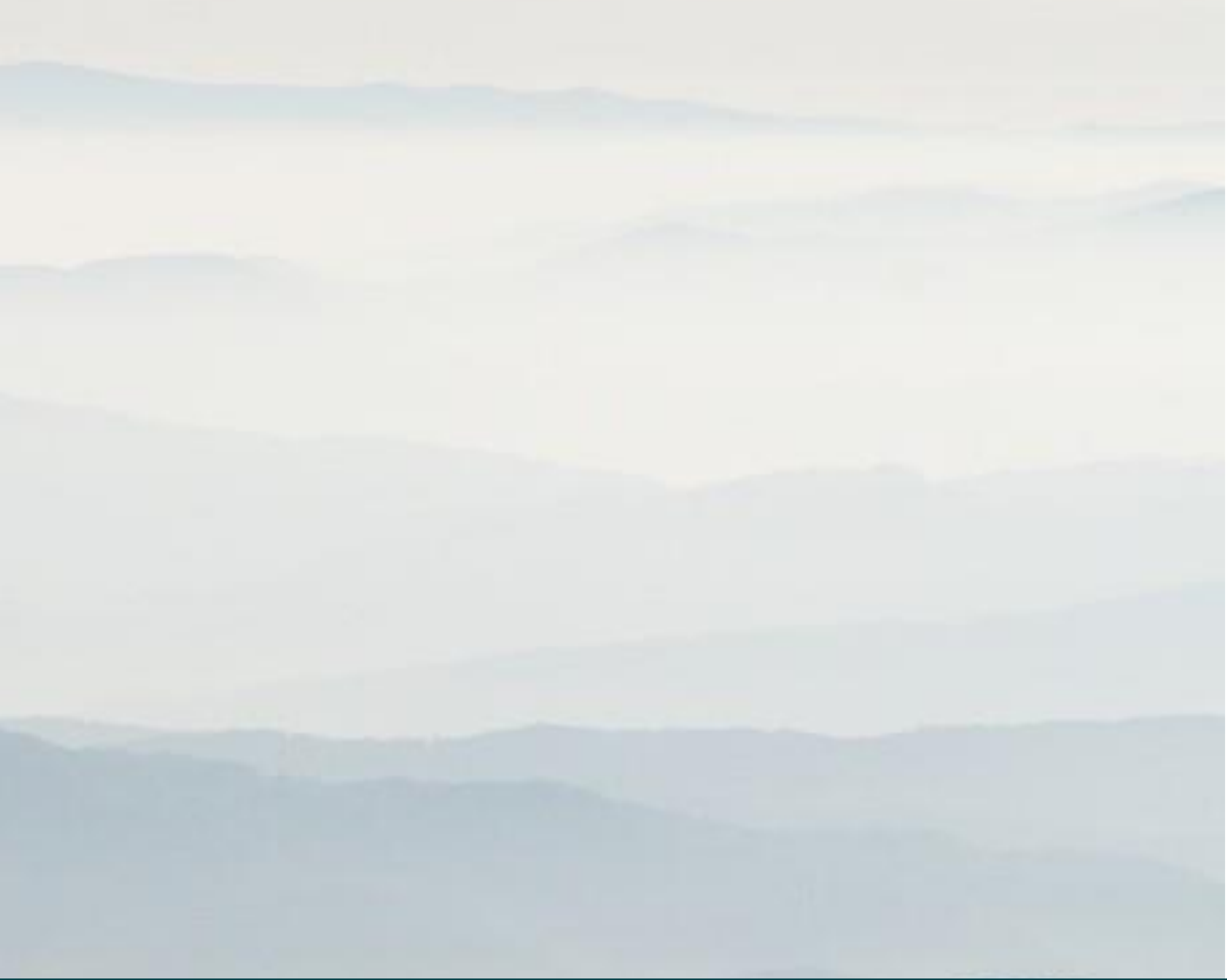

Navigating the Junior Talent Landscape in 2023

White Paper

WESSEX PARTNERS

Investment banking appears to be suffering from an epidemic: ***is the calibre of its junior talent declining?***

This isn't a new debate by any means: the perception that some junior bankers have become more difficult to manage and, in some cases, are underperforming has existed for a number of years, only worsening with each new intake of fresh graduates. Amid the challenges imposed by COVID-19 and a difficult macroeconomic environment, it is no surprise that some banks are struggling to attract, hire, and retain good junior talent, especially when there continues to be alternative roles available both inside and beyond financial services. In 2021, a survey conducted across 267 financial services employers revealed that 83% suffered from a shortage of skilled juniors.[1] Despite many banks having stepped up their efforts to retain this talent, such as increasing base salaries and fast-tracking top junior bankers, reports estimate that around 70% of analysts and associates have departed their roles recently.[2] The junior talent pool is an enigma to banking institutions, causing them to scratch their heads and ask: is the talent pool there, and if so, how do we support and retain the best analysts and associates in the market?

At Wessex Partners, we work across the investment banking and private markets landscape, hiring and building strategic senior teams globally. We track rising stars moving through the mid-level and this remains an important part of the engine for both banks and the funds they transition into. We explore how the crux of this junior talent gap fundamentally lies in a mismatch of expectations and values between junior and senior professionals. It offers five areas of focus - work-life boundaries, mentorship and recognition, aligning values, learning opportunities, and senior retention - as potential remedies to these issues.

Why Focus on the Junior Talent Gap Now?

It may be tempting to view high junior attrition rates as a natural part of the banking ecosystem, but complacency can inflict extensive and enduring consequences. In the short term, the lack of a strong junior bench prevents senior professionals from executing deals swiftly and effectively. This is particularly pressing now given that many firms are seeking trained plug-and-play execution bankers with the cautious optimism that financial sponsors will finally start exiting investments and deploying capital in the latter half of 2023. Looking to the long term, the lack of a well-trained junior cohort presents a more ominous issue; that the residual talent will be carried up through an organisation. The harsh truth is that analysts who are not trained properly become associates and VPs who perpetuate and entrench bad habits. This makes bridging and rectifying this talent gap more pivotal than ever.

Understanding the Junior Talent Gap: The Key Challenges

Across H2 2022 and H1 2023, we conducted extensive research and in-depth interviews with analyst and associate cohorts across various teams in both bulge bracket and boutique investment banks. We aimed to get a sense of what juniors valued beyond financial compensation when deciding to develop a long-term career at their institution and compared this with the thoughts and expectations of the senior leaders we work with closely. From our research, we extracted five key findings regarding the priorities of top-quality talent.

1. The Importance of Work-Life Balance

Undoubtedly, the desire to establish a healthy balance between work and personal life is prevalent across all levels of seniority. However, what sets those starting their career apart is their growing willingness to make more significant sacrifices to safeguard and maintain these boundaries. Recent survey data revealed that 76% of analysts would choose to accept lower pay in exchange for more flexible hours and a better work-life balance.[3] Across banking, this shift in attitude is reflected in the fact bankers are choosing to move to the buy-side - or completely away from the industry into corporates - in far greater numbers and at earlier points in their career than ever before. The demands of work on the buy-side are often equally intense yet offer more opportunities for flexibility and balance in line with fluctuations in deal flow.

More importantly, however, it is necessary that we contextualise and understand the increasing resistance to the traditionally gruelling culture of investment banking among less seasoned candidates. This rejection is driven by a generational movement striving for positive change, rather than a reaction rooted in an aversion to hard work. Maintaining healthy work-life boundaries took centre stage during COVID-19 as the pandemic reconfigured the physical and psychological boundaries between work and non-work. The greatest knock-on effect of this was dramatically higher burnout rates amongst the lower levels. Many admitted to being mentally and emotionally exhausted, dealing with intensified workloads, market uncertainty, and the social dislocation from remote working and lockdowns.

Across our research for the analyst and associate classes at tier-one banks, 94% disclosed that they worked past 3 am for at least four days a week during the lockdowns. This pace was felt to be unsustainable, and many feared it would eventually take a toll on their long-term mental and physical well-being, potentially affecting their performance in the future. However, to perceive this as a problem exclusive to the junior-mid level populations within teams is unhelpful. We have seen high levels of individuals taking absences for work burnout across all seniority bands. Where serious changes for improved wellbeing need to be made it must impact all levels, and a mentality of leading by example adopted.

2. Aligning Values

As part of this generational shift, juniors are increasingly making career decisions based on an institution's alignment to their own value system. We are seeing individuals voting with their feet where commitments to diversity and inclusion, ESG, and ethical working practices are compromised. There has been a deliberate push back over the last five years against what was the "traditional" working culture for the banking industry. A sensitivity to different cultural practices, inclusion for the LGBTQ+ community, and active dialogues on gender/racial equity have been increasingly viewed as non-negotiable.

Recent stories shared with us by the associate/VP level have included seniors hosting alcohol fuelled international work offsites over Ramadan, female teammates being not invited to team drinks, individuals being pulled into all night deadlines on Yom Kippur, and a host of other "inappropriate" behaviours that one would have been forgiven for thinking were consigned to the past. Even when not personally affected, these cultural concerns are felt to permeate organisations and have been a decisive factor in team (and firm) exits.

Such scenarios highlight why a significant percentage (67%) of Gen Z workers are more inclined to apply to a job at a company that prioritises a racially and ethnically diverse workplace during the recruitment process.[4] Embracing diversity and fostering mutual respect within the workplace are essential pillars for attracting and retaining top talent as it creates a thriving, inclusive environment.

3. Mentorship and Recognition

It became evident that another key focus for individuals at this level was the need for a supportive mentor who would actively invest in their professional growth. But what does this 'mentorship' really look like, and how does one quantify its impact? For analysts at the early stages of their careers, having someone who can provide advice and, more importantly, take an active role in fostering a welcoming work environment was crucial for determining whether they would remain at an institution. For example, one analyst who participated in a rotational program at a European bank cited their decision to work in the Leveraged Finance team simply because they wanted to work with the VP who would consistently go out of their way to support them and introduce them to other colleagues across the business. More experienced associates, on the other hand, aimed to find mentors who could actively "sponsor" them by advocating for their success by, for example, putting their name in the mix for promotions, recommending them for a pay rise, or constantly vouching for them for other career opportunities. Overall, the analysts and associates were strong supporters of moving away from a pooled approach to training individuals to something that is more bespoke and designed to create deeper connectivity to senior colleagues.

In a similar vein, recognition from senior managers emerged as another important theme when asked about what they value from their firm. When we asked the question, "what would convince you to stay at your current institution?", at least 85% of junior bankers mentioned the importance of feeling recognised and appreciated. One first-year analyst at a large US bank emphasised the significance of having seniors who "were not detached or dismissive and were appreciative of the work being completed by people across all levels". Furthermore, they openly admitted that they would strongly "consider leaving" if their mentor/mentors left the platform. For some business leaders, this has profound implications: junior bankers are tied to people, not institutions. Without the presence of multiple good mentors, banks are at risk of business heads leaving and taking a high-quality execution bench with them as they seek to build teams elsewhere.

4. Learning Opportunities

A key piece of feedback was that good learning opportunities are "surprisingly hard to come by" and were significantly harder to access during the pandemic. Many banks had to restructure their training modules to fit online formats, which, according to both junior and senior team members often did not provide the same level of engagement, interactivity, and real-time feedback as "in-person" sessions. The absence of spontaneous and informal learning experiences, in their view, impeded the development of critical skills such as financial analysis, deal structuring, and relationship management. This sentiment was shared by a VP-level restructuring specialist at a boutique investment bank: "the lack of contact hours just meant there was less osmosis taking place … [it was] taking longer for [the juniors] to get up to speed". Likewise, the juniors themselves admitted that full remote working arrangements made it significantly harder for them to grasp important aspects of their roles and see the full cycle of a transaction and, bluntly, to also be "seen" by their seniors. In particular, one associate from a mid-market investment bank felt that they had missed out on an accelerated promotion due to not having had enough facetime with the senior members of their team, despite having exceeded their targets and receiving strong advocacy from colleagues.

5. **Stability and continuity**

In a work environment marked by economic uncertainty and sporadic layoffs, it is no surprise that bankers would seek to prioritise stable employment over a traditional brand name in their job search. Interestingly, our research found that those who wanted to pursue a long-term career in banking increasingly looked towards senior retention as a measure of an institution's "stability". High senior retention reflected a stronger commitment from an institution to the career growth and advancement of their junior talent and provided insight on a team's ability to "weather a storm". For example, a recently promoted VP noted the reason he abruptly left a role last year was because whilst he liked his previous employer and was well-regarded, he felt a "sense of unease and uncertainty [after] many of the good senior talent departed".

Evidently, there is an inextricable link between junior and senior retention: an institution's ability to attract and - more importantly - retain skilled senior professionals at all levels plays a pivotal role in instilling confidence in the team below.

A Panacea to the Junior Talent Gap: Key Considerations

To bridge the talent gap and unlock the potential of the strongest analysts and associates in the market, we strongly encourage senior professionals to reflect and focus on building strength in the following areas:

1. **Availability of good mentorship**

Good mentors come in all shapes and sizes. But to be able to build a personal and meaningful connection, the following points should be considered:

- **Clear and effective communication** - For hires at the analyst and associate level, setting clear expectations, providing constructive and timely feedback, and establishing open communication are important tools that stimulate growth in the workplace. For example, when it comes to feedback, 60% of Gen-Z workers have expressed that they want direct, frequent communications and "check-ins" with their supervisors for performance evaluation, and very few, despite best efforts, were comfortable saying that they are receiving this.[5]
- **Small gestures that count** - More often than not, the best way to engage with juniors involves making small changes that puts their experiences front and centre. For instance, an analyst at a large US bank shared a heartwarming anecdote about an MD who, despite living in the opposite direction, chose to travel back with the juniors after a team social event just to make sure they got home safely. This simple gesture left a lasting impact. Sometimes, it's the small actions that show their presence and work is valued.

2. **Achieving inclusivity through diversity**

Diversity and inclusivity are not interchangeable concepts; they are complementary forces. While banks have made efforts to increase diversity for hires at the analyst and associate level, true inclusion goes beyond representation. For senior professionals, understanding this distinction can be shown by, for example, advocating for junior members from minority groups, demonstrating a genuine curiosity to learn about other cultures and experiences, and being proactive in recognising and calling out microaggressions.

3. **Improving senior retention**

At an institutional level, senior bankers who stay at the same bank for a long time can cultivate a deeper understanding of the organisational culture, processes, and dynamics, which can all translate into valuable guidance and mentorship for junior employees navigating their careers within the bank. Retaining these individuals ensures a stable mentorship pipeline for each new intake of juniors. In this regard, the “hire and fire” model has no place in this ecosystem.

4. **Increasing visibility in the firm**

Increasing visibility within an institution provides junior employees with more opportunities to develop key skills and progress in their career trajectory.

- **Cross-functional projects and rotations** - Encouraging cross-functional projects and rotations to expose juniors to different areas in the institution. Additionally encouraging juniors to take opportunities that can broaden their international exposure, such as secondments abroad, can foster a sense of variety and growth as well as a better understanding of their role as part of a global organisation.
- **Skills development and training** - Offering comprehensive skills development and training programs tailored to the needs of those just beginning their careers. Providing avenues for continuous learning and upskilling enables juniors to build content and empowers them to take on new challenges and progress within the organisation.
- **Internal peer networks** - Establishing or encouraging individuals to engage with peer-to-peer networks that connect colleagues within the firm and throughout the larger financial services landscape. These networks can be structured as employee resource groups or affinity groups that focus on specific dimensions of diversity, such as gender, race, disability, or generational differences. For example, platforms such as the ‘InterBank LGBT+ Forum’ and ‘Black Women in Finance’ (BWIF) specifically aim to aid the professional development of individuals within those communities.

5. **Emphasis on mental health and boundary setting**

To create a supportive environment that promotes the growth and retention of junior investment bankers, senior professionals should proactively address mental health concerns and advocate for healthy work boundaries. This also will help ensure work doesn’t “travel upwards” and simply place the stress elsewhere. Here are some key considerations:

- **Hybrid working** - Flexible working arrangements can promote healthy work boundaries and create a supportive environment that fosters the growth and retention of junior talent. In a recent survey, it was revealed that 43.8% of Gen Zs still prioritise flexible working over other benefits. However, less than 2 in 10 Gen Zs and millennials want a fully remote work pattern, which indicates that they still value in-person collaboration with colleagues.[6]
- **Setting realistic expectations and workload management** - To prevent burnout, it is important to monitor workload and redistribute work strategically while providing them the necessary tools, resources, and support to manage critical assignments.
- **Encourage individuals to seek counselling and support services** - Most banks provide access to counselling and other mental health services, but most juniors are reluctant to reach out as they fear it will communicate a sense of weakness. To combat this, encourage open conversations about mental health and create a culture that destigmatizes seeking help when needed. Individuals should also be actively encouraged to use and engage with these existing resources.

Conclusion

So, is the calibre of junior talent really declining? The short answer is, no. There is no shortage of good analysts and associates, but it is evident that institutions must adapt their approach to effectively engage with and harness the potential of these pools of top-tier talent. What is also apparent is the positive impacts some of these changes can have at the mid and senior levels, creating a more sustainable and equitable work environment for all.

As the new generation continues to flow into the workforce, it is inevitable that investment banking's modus operandi will continue to face increased scrutiny and rejection from these young professionals. To retain valuable talent, senior members must lead by example: at the end of the day, analysts and associates rely on the senior bench to advocate for them and integrate these evolving priorities into the fabric of the investment banking industry.

Accepting the need for change is the first step towards achieving meaningful transformation in the banking industry.

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