

**Role Play**

**Pivot Bank:**

Role of the Managing Director

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General Information

JLA Financial is a boutique investment bank based in Canada. JLA was founded by legendary entrepreneur and philanthropist Justin Campbell 15 years ago with investment expertise in the oil and gas sector. Attributive to the founder’s close tie with government authorities and reputation within the energy industry, the bank in its early years led some high-profile mergers & acquisitions, received numerous accolades, and garnered respect in the industry for exceptional investment performances. They have 120 employees, all from top universities. The bank is based on a partnership structure.

Last year, due to an unexpected tragedy, Justin Campbell passed away with no succession plan regarding his majority ownership of the company. Co-founder Jonathan Anderson became the interim president of the bank while the organization sought a strategic plan post the tragedy. Due to the sudden absence of its founder and top leader, the bank has lost significant revenue to its competitors. Accelerating this decline, commodity prices have plummeted. The bank is experiencing increasing pressure to transition to the renewable energy sector, and is seeking alternative revenue sources.

The provincial government cannot afford for JLA to go bankrupt. Thus, the firm was acquired by Pivot Bank, one of the largest banks backed by the provincial government and went through a round of restructuring and changes in senior management. Due to the governmental nature of the parent bank and the downturn in the energy industry, a salary and promotion freeze was communicated to the employees of JLA amidst the post-merger integration.

Role of the Managing Director

You are David Baumer, currently the office managing director for the capital market division under Pivot Bank Corp. You were initially a partner under JLA Financial and have witnessed the company’s highs and lows. In recent years, due to the increasing pressure from environmentalists, the oil & gas industry has been declining significantly. On top of the pressure from environmentalists, the company was hit badly by a recent international oil price war. You are among a handful of executives who were able keep their job under Pivot Bank Corp. Many useless VPs were forced out of the company due to their poor performance and track record; only top performing leaders like yourself were asked to stay on. Still, you remain under pressure because of the restructuring and the need to turn around the business. You have been thinking about diversifying investments into the Renewables sector. Your company has not been profitable in the recent year, and your division’s budget is getting difficult to defend.

During the integration to Pivot Bank, your shares have been bought back with potential earnouts. If your department hits 150% revenue from last year, you will receive 2x value for each of the shares you held originally. You, Robert McAllister (your deputy office managing partner) and the other remaining partners, all high-value leaders key to the company’s survival, were able to negotiate a salary and bonus increase during the acquisition. This was a wise move for the firm given that each of you generate many multiples of your compensation in revenues for the bank each year.

However, to avoid further diluting the bank’s revenue, the deal came with a clause that there will be a companywide salary and promotion freeze for juniors, most of whom can be easily replaced by going to the market. In your view, very few of juniors at the firm are truly “earning their keep”, and none of them are critical to the firm’s future. You have a right to make an exception for the occasional promising junior who is likely to stay at the firm and become a partner someday, but would have to defend your decision at a monthly partner meeting. You have communicated to your team about the salary and promotion freeze carefully without them finding out you and the other partners have a different compensation deal.

You manage a team of 13, including a senior associate Zhang Wei (Kenneth) Feng, who has been with the firm for 2 years, making him the most tenured member of the team. Kenneth is experienced and has been a consistent top performer, and you do see him as someone who could potentially become a partner and peer one day.

David Baumer

Associate A

Kenneth Feng

Associate B

Analysts (3)

Analysts (3)

Analysts (4)

Fig.1 Initial Organizational Chart for David’s Team

Kenneth is essentially acting as a VP in your team by attending all the pitches and board presentation with you, and you have received numerous compliments from clients about him in the past year. You are happy to have him on the team, and you may need to thank the depressed energy sector job market: there are very few opportunities for people with Kenneth’s background right now. However, since everyone knows that competitors’ offers are confidential and current employers cannot see them, it is not uncommon to see employees citing made-up offers to gain bargaining power. Even in your team you have experienced cases of employees falsely claiming interest or even on-the-table offers from your competitor, Straightforward Bank, when negotiating career prospects with you. Straightforward Bank is your bank’s major competitor, and it has closed the top three deals in the Canadian market for this year. It is highly likely they are hiring due to active deal pipelines, however, they usually only do structure hiring from undergraduates or MBA programs. Due to Straightforward Bank’s reputation and culture, investment bankers rarely turn down offers from them.

During the past three months, all three junior analysts and one associate from your team have left the bank, and Kenneth is the only employee left in your team who is from JLA Financial. You don’t know the reason, but you see a troubling trend in the company as almost 80% of the junior analysts and associates have left the firm over the past few months.  Due to Kenneth’s close interactions with the juniors, you trust he knows the exact reason why they are leaving the firm. Amidst these departures, you were called for a meeting with the head of human resources to explain the high turnover. She mentioned to you that if there is another departure from the team, the issue will be escalated to the executive committee. In this case you will need to explain your mitigation plan to the bank’s board. This situation would become detrimental to your career within Pivot Bank. You are eager to find out the actual reason behind all the departures from Kenneth to act upon the core issue and secure your future in the company.

David Baumer

Associate A

Kenneth Feng

Analysts (3)

Analysts (4)

Fig. 2 Organizational Chart after Resignations

You were surprised when Kenneth asked to receive an earlier performance review (a number of months ahead of time), but you agreed to meet with him. Usually, in the investment industry, early performance reviews are used in order to ask for a promotion. However in Pivot Bank, these reviews are rare: the company’s new promotion policy is strict and known by everyone in the organization. The company just went through a restructuring, and the financial performance of the division has not been good. Salary increases are currently frozen, and cannot be readily changed for another year barring exceptional circumstances. Even though you don’t believe it will really happen, given the limited external opportunities, you are slightly afraid that Kenneth will leave the team. As he is at the centre of many workflows, you strongly prefer to keep him and you are ready to discuss ways to retain him.

March this year

September this year

March next year

Now

Next promotion cycle (only exceptional cases)

Salary & promotions freeze end

Fig. 3 Timeline for Promotion Reviews

You think of such a scenario and the tools you have in your hands to keep him in your team. In the past, you have been able to provide non-monetary benefits for high-performing individuals (slight title changes, acknowledgment rewards, better offices in the building, assignment to impactful projects). In special situations, you do have the power to exceptionally allow an accelerated promotion in the upcoming September cycle with salary increase with justification. The typical promotion from Associate to VP takes 3 years; promoting Kenneth in September means that the company will be fast-tracking his promotion by 1 full cycle. However, that will signify to the other partners your inability to promote talents at the right timing or to respect the current promotion freeze.

You are less constrained with regards to salary. You believe that you can leave Kenneth as a Senior Associate and increase his salary by less than 10% without the risk of triggering a conflict inside the team. With an increase of 10% to 20%, you will have to think of proper communication of your decision to the team as it will not go unnoticed, but you will still benefit from your budget flexibility and will not need approval from the company hierarchy. If you raise his salary by more than 20% and/or you decide to promote a team member to VP despite the promotion freeze, you will need to formally explain to the other partners why you made such an exemption for Kenneth. Promoting Kenneth to VP would typically come with a 35% salary increase; if you can keep the increase below 20% you would have less explaining to do at the partners’ meeting, since you’d at least have controlled expenses. Any promotion or salary increase decisions need to be made soon, in time for the September cycle. Of course, the best solution for you will be the one where you do not take any actions in terms of adjusting compensation or rank, and simply provide Kenneth with a verbal commitment to promote him March of next year, in other words as soon as the corporate policy allows it.

In brief, your goals for this negotiation are to:

* Retain Kenneth as an employee at least until March of next year, since any further departures before then will be escalated to the executive committee and hurt your future at the firm.
* Avoid promoting Kenneth to VP in the upcoming September cycle if possible. You want to extend the promotion timeline for Kenneth beyond the next cycle, so that he does not breach the promotion and salary freeze policy from the top executive team.
* Obtain a verbal commitment from Kenneth to stay at the firm for the long term, with the goal to eventually make partner. Note that without such a commitment, you cannot justify a raise or promotion of any kind.
* Obtain a verbal explanation from Kenneth as to why turnover is so high at the firm.
* Avoid raising his salary if possible, and if not try to minimize his salary increase to less than 10% (to avoid political problems on the team), or barring that less than 20% (to avoid having to justify to the other partners).
* Reality test any claims of outside offers from rival firms, which are exceedingly unlikely in this economy.
* Make sure Kenneth does not find out that the partners gave themselves raises and bonuses while freezing salaries and promotions at the junior level, which could not only demoralize him but many other employees as well.