SpencerStuart

Financial Services

Talent Drought

A Critical Challenge Impacting the Scalability of Fintechs (and What to Do About It)

The burgeoning Canadian fintech sector is gaining international attention, and with good reason: hundreds of growth-stage companies are being established with the goal of tapping into large financial institutions' spending or finding direct channels to market that disintermediate traditional players. To be clear, "fintech" refers to technology-enabled financial services organizations that are looking to either disrupt a traditional financial services model, or to enhance the products/services/ operations of incumbent institutions. These businesses are growing fast, and Canadian fintech companies are receiving investment capital from across the globe. However, we have found via our search work and industry discussions that one element is proving to be particularly challenging for these groups: Talent, which is a crucial ingredient for scaling from ambitious startup to successful company. This paper looks to share observations about talent challenges and solutions that can help your organization more successfully manage this transition.

FINTECH INVESTMENT IS THRIVING

There are approximately 500 established fintech companies across Canada and 60 percent of them are based in Ontario, according to the 2017 Canadian Fintech 2.0 Summit. And that number is only going to grow: the Business Development Bank of Canada said it expects to see as many fintech businesses established in the next three years as there were in the previous decade. Investment in these homegrown companies is accelerating rapidly, and the rate of growth is far higher in Canada than in the rest of the world: While fintech investment fell by approximately 30 percent in the United States and United Kingdom during 2016, figures compiled by Thomson Reuters[1] show an unprecedented 72 percent rise in Canadian fintech investing between 2015 and 2016, from C$154 million to C$265 million. Despite these secular trends, supply-side constraints on talent appear to be a persistent limiting factor of growth. While investment has increased, it appears as though Canadian fintech businesses have had greater challenges scaling relative to their international peers.

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One possible reason for these challenges is that talent in these early-stage companies is often technically strong but can lack the general management skill set and experience to scale the organization. Additionally, on a national level, Canada does not have a well-established pool of "accelerant talent" — people who have built, scaled and successfully exited businesses — while there is a large group of this talent in markets such as Silicon Valley, New York and Seattle. Through our conversations, we have also noticed that even those fintech companies looking to partner with, rather than disrupt, larger incumbents often find it challenging to find and cultivate talent that can navigate and sell into the incumbents. This talent gap can hamper the growth of smaller organizations as they burn through capital while spending valuable time trying to understand how to move through the proof-of-concept process and identify the key decision makers in a more complex organization.

Canadian fintech businesses also face serious competition for homegrown talent. American companies often have the capital to offer more attractive compensation packages, and they view Canada as a source of top talent: the University of Waterloo was listed as one of the top three producers of talent hired by tech companies in the San Francisco Bay Area, and there are currently more than 350,000 Canadians working in Silicon Valley at the senior level, according to The Globe and Mail.[2]

1 Ho, Solarina. "Canadian Fintechs Shine as Investments Near Record." Thomson Reuters, January 2017.

2 Scott, Alec. "Lessons from Canada's Silicon Valley Diaspora." *The Globe and Mail*, March 26, 2017.

Finding — and retaining — executive level talent that can help to scale growth-stage organizations is clearly a key issue for Canadian fintech companies. To provide some guidance in this area, here are some lessons we've learned through our work and research.

STRUCTURE YOUR ORGANIZATION EARLY

As part of your growth strategy, shift from recruiting generalists who can wear many hats to recruiting around a particular function. A critical input to scaling a business is the ability to transition leadership from generalists to functional experts who can focus their expertise to drive results. When we looked at 65 established Canadian fintech companies, we found that 85 percent of the founders also held the CEO position, and less than 35 percent had established specific functional roles for the chief financial officer (CFO), chief operating officer (COO), chief risk officer (CRO) or general counsel. Mogo and Zafin, two of Canada's most successful fintech companies, have demonstrated success in functionally structuring their businesses:

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» Mogo, a Vancouver-based next-generation digital financial services platform, established a CRO role in 2015, elevating the importance of the risk function rather than folding it into operations or finance. The current CRO is a 20-year veteran of the financial services industry who has experience across credit and operational risk from both established incumbents and growth-stage organizations.

» Zafin, a Toronto-based banking software company, changed its recruiting strategy and increased its focus on bringing in the right talent to scale the organization. Leaders determined the specific roles required to expand the business globally, rather than recruit talented individuals and give them a varied portfolio of responsibilities. Over the past two years, the company has hired several new executives, each with a specific functional mandate, including: a chief people officer, a president of digital platform, a senior vice president of digital banking and an executive vice president of global services, among others.

Creating more specialized roles will also aid in the recruiting effort, as we often find that a key component to attracting talent is having a clearly delineated mandate.

DEFINE THE NEEDS OF THE SALES FUNCTION

Many fintech companies seek sales roles to complement the founder/technical talent in the organization. When analyzing your needs within sales, ask yourself: are you seeking talent with proven sales skills, or do you need someone who can navigate large financial institutions and identify the decision makers? If it is the latter, consider leveraging consultants who have likely mapped out the organizational structures of these larger companies, or connecting with recently departed talent from incumbents who can advise you on how the RFP process works and who to connect with. At an early stage, the best-suited sales or business development person is likely a member of the founding team who can articulate the product and process to market. At a later stage, it may make sense to recruit an experienced professional into a head of sales role. However, we would caution against having this person act as the sole owner of all potential key client relationships — particularly when one new client account may impact the trajectory of the firm and its potential for raising future capital. Failing to mitigate against this can lead to "key man/woman" risk and could negatively impact your client relationships with your business.

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PLAN FOR SUCCESSION

As companies scale up, the founding team's skill sets — which are often defined based on functions such as technology, product or sales — may need to be complemented by a leader who has demonstrated success in scaling operations. In our experience, private equity firms that invest heavily in growing organizations often look to round out the founding leadership team in order to scale. Founders who want to be a significant part of the process of recruiting a new CEO or key members to the executive team should assess the current leadership's (including their own) strengths and gaps in skill sets, and should be open to accepting candidates outside of their own network.

When planning for succession, it's beneficial to seek established executives who have scaled businesses and participated in successful exits (such as an IPO or a strategic sale). Unfortunately, this is often a difficult combination of skills to find. An alternative option is to look at executives who have led similar-sized operations to the desired scale level of the growth-stage firm and have demonstrated success working in an entrepreneurial environment, such as launching a new business or market with limited resources. We encourage the founding team to proactively plan for succession early on, or investors may plan it for you.

LEVERAGE YOUR UNIQUE CULTURE

Highly coveted talent tends to weigh culture heavily when considering where to work. Use your company culture as a recruiting tool, market it and be fiercely protective of it as you grow to ensure it does not become diluted. The CEO and members of the founding team should play an active role in marketing and recruiting for culture.

USE NON-TRADITIONAL SOURCES TO FIND TALENT

When developing a search strategy, organizations should look beyond their own network and consider the following additional talent sources:

- **Look outside the Canadian market:** As is the case for obtaining financial capital, talent is becoming more fluid across borders and working remotely is the norm for many organizations. Growing businesses should access a more global pool to find the best talent, and operate across borders, if necessary. An added benefit: investors and outside talent will view your company as being a global organization as opposed to one that is solely Canadian focused.
- **Take advantage of the growing "gig" economy:** It's estimated that temporary, flexible employees will make up 43 percent of the workforce by 2020, and the interim executive category is seeing 20 percent growth in some markets.[3] There are many executives who have significant experience and are nearing retirement but are not fully ready to exit the workforce, and they may be looking to add value to growing organizations on a part-time or short-term basis. This can be an affordable source of talent as you look to round out your leadership teams and scale.
- **Leverage well-networked professional services firms:** Connect and share your talent needs with consulting, venture capital and search firms that have established or emerging fintech practices. Many firms will willingly make proactive talent introductions to growing firms when they see the potential to be helpful to their own network.

CONCLUSION

In the rapidly changing world of fintech, a more traditional approach to recruiting and retaining talent will not be sufficient. Growth-stage organizations must continuously disrupt their own talent model as they face changing markets and different stages in the growth cycle. The flexible talent that can wear many hats at the onset of developing a business is no longer necessarily the right talent for a sophisticated organization that requires functional leadership. And when your organization has successfully found, scouted and obtained that elusive high-potential talent, focus your efforts on creating an environment that will help you retain that talent. 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 that may offer increased equity or less risk. These factors all underscore the imperative for fintech companies to develop a purposeful recruitment and retention talent model.

3 Straus, Karsten. "What is Driving the 'Gig' Economy?" *Forbes*, February 21, 2017.

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