

# Human Cap

## The Pension Real Est

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# ital Issues

## ate Industry Faces

The continued strong flow of capital into the industry coupled with the global expansion many firms are undertaking are just two factors shaping the human capital needs of the institutional real estate industry. We asked some leading experts from the executive recruitment and corporate human resource areas to talk about the trends that are impacting our industry. These experts provide a broad overview of the demand for talent and how they and other companies are addressing these needs. What do companies need now, and who will be the leaders of tomorrow?

**What are some of the key forces or trends shaping the real estate investment industry that will impact HR needs?**

**Cherney:** The availability of capital flowing to the industry is creating more demand for experienced real estate professionals. Real estate is an important asset class in an investor's portfolio with increasing stature among the alternatives. Demand for talent that can approach the market creatively and with vision will only increase on a global basis.

**Costley:** The most significant factor driving change in demand for human capital across the industry is the continued strong capital flows into real estate. Companies are searching for talent who can put their capital to work, and the hunger that many companies have for investment professionals seems insatiable right now. Development talent, financial officers, and operational leaders are also in demand.

Another critical trend shaping executive hiring and compensation across all sectors is the continued expansion by many leading firms into overseas markets. With high valuations and relatively lower return expectations in the United States, many firms are continuing to focus resources on bulking up overseas operations. It's difficult to overstate the importance of globalization to the future of the real estate industry, and we expect demand for talent to remain high as

the surge of capital flowing into overseas markets promises to fuel a boom in real estate activity.

Addressing corporate governance issues and Sarbanes-Oxley compliance are also top priorities. Transparency, consistency, and timely reporting of information are critical so that investors have information on their investments. Maintaining credibility is paramount. Risk management systems are important in identifying potential problems at the earliest stages. Consequently, there's continued strong demand for experts in finance, accounting, and risk management. There's also a real need for directors who are willing and able to devote the additional hours and contribute the strategic insight that shareholders are demanding from them.

**LoPinto:** The situation today is extremely dynamic. First, investment activity is exploding globally across all sectors and expanding aggressively into emerging markets involving direct property and entity-level investment; large-scale, ground-up development; and rapidly expanding securities investments in emerging REIT markets. Second, institutional leverage and influence over more of the business in the form of ownership of public vehicles and significant investments in private enterprises have raised the bar on management, with greater scrutiny of the caliber of the team and its performance. Finally, there is a relative shortage of talent



within the real estate industry that is equipped to deal with this expanded global, more institutional, and sophisticated nature of the business. This shortage is aggravated by inadequate recruiting activity and limited succession planning over the past two decades, as well as the real estate bust of the early '90s that kept young talent from entering the business. Today, many companies are upgrading the HR and talent management functions to more aggressively deal with the human capital needs within their firms. Public companies with seasoned HR executives involved at the strategic level have also implemented more rigorous succession planning processes and “designated talent programs” to ensure that they keep their best talent. Finally, organizations are implementing more professional recruiting standards to begin reinforcing their organizations for the future.

**Scelzo:** I believe the force that has already been unfolding and continues to be developing is globalization. This has major impacts on HR needs in many areas, such as recruiting, establishing new business locations, and understanding how to operate in a foreign culture and environment. The needs of HR will expand to include more specialized knowledge, sources for understanding complex information and consulting, and support in effectively operating in and training individuals from very diverse cultures.

**Sessa:** Consolidation is a significant force in the real estate industry, and HR's ability to lead and impact the “war for talent” given this consolidation is critical.

**Wasley:** The three most significant forces are the dearth of talent caused by the “brain drain” of the 1990s, the increased demand for talent, and the increased compensation caused by this supply-demand imbalance in talent. Once the capital inflows into real estate started in the early 2000s and the dot-com era crashed, real estate became a more desirable and valued career path. HR needs to manage through this imbalance by focusing on the recruiting and retention of the up-and-coming level of talent while creatively looking outside the real estate industry for executives with the appropriate “DNA” to effectively transition into real estate investment.

*What are the main human resource areas you will be focusing on for 2007?*

**Cherney:** Professionals who can deploy capital globally in all investment types, including equity, debt, and JV structures; professionals who can create and invest real estate fund to funds that offer high net worth individuals, pension funds,

endowments, and foundations that do not have a staff dedicated to the asset class access to institutional-grade real estate. We are also seeking talent to assess and predict how to create value successfully in emerging markets for those investors seeking the highest possible returns.

**Scelzo:** We will be putting our efforts into four main areas: recruiting, compensation/rewards, talent management, and training and development. For recruiting, we will be increasing our diversity networks and looking to add more creative ways to tap into talent. For rewards, we will be reviewing our current plans from the total rewards perspective to ensure we are in a competitive position. In the talent management area, we will be focusing more on creating HR metrics that senior leadership can use to make business decisions that involve human capital issues. We will also look to strengthen our talent review and succession planning processes. Lastly, we will focus our training efforts on manager skills, coaching, and career development programs.

**Sessa:** Sourcing, recruiting, developing, and retaining talent are always a focus. As a services firm, we strive to differentiate ourselves by the intellectual and human capital that makes up our workforce.

**Wasley:** Risk management, compliance, and asset management are the three biggest areas of demand we are seeing.

*How is the corporate HR function changing to improve workforce productivity and keep companies competitive? How have technological advances impacted these areas?*

**LoPinto:** The main change we have seen, and a trend I expect will continue, is the upgrade of HR leadership. The HR function needs to be elevated to the C-suite, and over time, the companies that do so will find that employee productivity and retention will improve along with all aspects of talent management. As for technology, the Internet has already impacted HR activities significantly, providing greater access to information, communication, tools, and recruiting products. However, this is still an emerging trend, and it's going to change the landscape even further.

**Scelzo:** Each year, the HR profession becomes more and more technical. I believe that companies are trying to leverage having a lean and efficient HR function but retain the ability to handle ever-changing employment regulations and trends. Where I see many companies going is to leverage



Successful corporate HR executives are no longer strictly compliance and policy people, but are closely aligned with the business executives in building human capital. They understand the drivers of the business and the culture of the company and are seen as true partners by executive management in building the business.

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using HR outsourcing services for transaction areas, such as payroll and benefits, and employing more seasoned or experienced HR professionals to handle complex employee issues and strategic planning. Technology, such as robust databases that can take much of the “paperwork” off the HR person’s plate, now allows the HR professional to contribute in business-critical areas such as recruiting strategies and efforts, development of employees, and business planning related to human capital issues.

**Sessa:** Workforce productivity is a big issue. We have initially put an emphasis on broker productivity. In the talent management arena, we’re focused on three areas specific to the “employment life cycle” of the brokerage professional: (1) making sure we attract and hire the right people, (2) making sure we have appropriate management accountability, and (3) making sure we provide the highest-quality learning and development opportunities for our brokerage professionals that target the most critical skill gaps.

**Wasley:** Successful corporate HR executives are no longer strictly compliance and policy people, but are closely aligned with the business executives in building human capital. They understand the drivers of the business and the culture of the company and are seen as true partners by executive management in building the business. Technology has been a double-edged sword. E-mail and Blackberries have been phenomenal in speeding up decisions and allowing remote work to become widely accepted. However, e-mail and Blackberries have also caused frustration, conflict, and lawsuits. Exceptional HR executives know how to effectively intervene in order to get conflicts resolved face-to-face or by phone rather than by an e-mail war.

*What are the required skills for today’s leaders? How have they evolved from yesterday, and what skills will leaders of tomorrow need?*

**Cherney:** Today, executives must have a global reach and an appreciation for how investments in all regions produce quite distinct risks and potential returns. They must be able to compare real estate investments to other alternative investments by clearly articulating the value each brings to a portfolio. Previously, real estate was more of a silo in an institutional portfolio. Executives will also have to possess the ability to project how real estate will be influenced by increasingly stringent environmental demands.

**Costley:** At the chief executive level, executives who exhibit the cardinal qualities of leadership—charisma, ability to in-

spire, decisiveness—are always in highest demand. More broadly, when it comes to the senior executive team, we’re seeing many companies widening their search for talent to include people with experiences in other sectors of real estate. Firms are also becoming more willing to take a chance on promoting mid-level employees up the ranks, especially if they have valuable experience. They’re betting on the probability that these employees will mature into successful senior talent, even if they don’t fit the exact specifications for a given position.

Across all levels, there’s real demand for talent with prior experience working overseas. By necessity, companies are becoming more willing to hire executives who don’t necessarily have experience working in a particular overseas market but instead bring other skills or experiences; for example, they have the ability to speak another language or perhaps they went to school overseas. If I were advising a young person today, I’d tell her or him to learn to speak a foreign language—preferably Chinese, Hindi, or Arabic—and study or work abroad early on. It’s the way the world is going, and we don’t see this trend tapering off.

**LoPinto:** The real estate leader of the past was a smart, shrewd, creative, and dynamic entrepreneur who typically operated in the private arena, relied on conventional financing—nothing too sexy or sophisticated—and had little to no transparency or public accountability. Yesterday’s leader also worked from the gut and surrounded himself with a loyal cadre of lieutenants. Company leadership and management emerged from deal success or family bloodlines and was typically not recruited for, developed, or mentored; it was an abstract art form that hopefully worked in an organizational context.

The world has changed significantly, and the demands on today’s leadership require a new breed of talent: more professional management with different skills that retain an entrepreneurial orientation in an industry still grounded in the transactional world. The global nature of the business; the need to apply sophisticated financial products and tools; extraordinary capital flows that create much higher stakes (with business trading at warp speed); and transparency, public scrutiny, and public reporting dictate the need for leadership that can effectively operate in this environment.

**Scelzo:** I believe two major areas have affected how leadership is changing: technology and the changing demographics of today’s workforce. First, leaders now have to lead and communicate with others remotely or in a virtual set-



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**Carolyn Sessa**

ting. This is a real leadership challenge to motivate work teams, manage the performance of others, and be able to deftly communicate via different methods. To add to this, Generation Y has now entered the workforce, and this is a group that is motivated more by work-life balance, desires to be part of creative and interesting projects early on, and expectations of interaction with and attention from senior leadership. This puts pressure on leaders to be more available and involved with employees at all levels of the organization. While we are still seeing the effects of Generation Y in the workplace, leaders will need to continue to evolve to motivate this growing part of the workforce in the future.

**Sessa:** In our business, entrepreneurial leadership has been the cornerstone of success. Client demands are changing and require a much more sophisticated approach. The successful entrepreneurs of yesterday have to reach out and across functional lines and across geographical boundaries around the world to meet our client needs today. Being able to keep the pace requires not only having technical and relationship building skills but also knowing your platform and who you need to bring to the table to win and keep the business.

**Wasley:** More than ever, executives with strong communication, mentoring, and coaching skills are in high demand. Although technology has increased the speed of business in nearly every aspect, technology cannot replace the interpersonal relationship skills that are essential in motivating and managing people—skills that cannot be replaced by a new piece of software or hardware. Executives who understand and embrace technology while communicating genuinely, effectively, and inspirationally are tomorrow's leaders.

**Do organizations have formalized programs/processes to identify the top talent? If yes, what retention strategies are being implemented in order to keep top talent?**

**Cherney:** We have observed that many companies are dedicating resources to building a more diverse workforce with the goal of presenting multicultural teams in client-facing situations. They are offered mentors and career paths that are planned collectively.

With respect to retention, we have not seen innovative strategies, but rather a continuation of vesting in funds or restricted stock. Garden leave time is increasing, but that is not truly a retention tool.

**Costley:** Certainly, with the battle for talent raging across nearly all sectors of real estate, there's a renewed focus on retention of talent, particularly the A-players. Essentially, companies are looking for innovative ways to create "golden handcuffs," both in terms of compensation and in areas that are more related to professional opportunity, culture, and work-life balance.

Organizations are much more focused on developing talent internally. We're seeing senior management getting involved in identifying and mentoring their star employees. High performers are being identified early and are given an immediate opportunity to make a difference within the organization to create a sense of ownership in the firm. Company leaders are working to demonstrate the opportunities for advancement within the company, they're building formal training and development programs, and they're spending more time and resources improving company culture so that people want to stay.

Ultimately, though, at many firms, compensation is still the most important factor in attracting and keeping top talent. In addition to higher overall total compensation, we're seeing more long-term awards and equity participation being offered to mid-level professionals as a way to incentivize them to stay. More firms are seeking multiple sources of compensation data to ensure they are paying at market. In fact, our compensation consultants are working with clients to evaluate compensation at the analyst and associate levels, where just a couple of years ago this type of work was generally reserved for more senior positions. Finally, clear communication about compensation is critical in such a competitive marketplace; setting clear compensation goals and reasonable expectations with employees is more important than ever.

**LoPinto:** As a consultant closely aligned with talent management in public and private companies, I have observed that very few companies have well-designed or developed programs to identify and manage the growth and succession of top performers. That does not mean that most companies do not recognize and keep top talent. However, in the best-of-class organizations that we observe, companies with senior, strategic-level HR executives who report to the CEO, the programs are very effective. From our perspective, organizations that have "identified talent" programs and well-established succession plans are among the best-managed and best-performing teams in the industry. They have less turnover because the senior professionals within the organiza-



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**Lynn Cherney**

tion see a career path within the company, compensation is closely aligned with performance, and weak performers are managed out. These companies are also more insulated from external recruiting attempts, thus reinforcing organizational stability. We also observe that companies committed to these programs tend to have a stronger, more positive culture.

**Scelzo:** More and more employers are taking the lead from companies like GE and appear to be using some type of system for differentiating talent. The best employers seem to be the ones that are successful at paying attention to those they have designated as top talent and are keeping this group motivated. We do have a talent management and succession program where we regularly discuss and review our talent base. We have an action planning process that we go through after each session regarding specific plans or goals we have to accomplish in relation to our talent. Beyond that, our strategies generally involve looking at where our engagement levels are (via employee surveys) and focusing our HR programs in the areas where employees are asking for more or improved programs. Though we are making strides in handling our top talent, we feel there is always room for improvement in finding more effective ways to identify and motivate our top talent.

**Sessa:** I think most organizations are deploying succession and talent management strategies to identify their top talent and next generation leaders. In our Europe, Middle East, and Africa region, for example, mid-level rising stars are identified and given development opportunities to help them achieve their potential. We are very focused on the training and development of both revenue producers and leadership to show the firm's commitment to their success in a challenging industry. When you take a personal interest in your people and their success, you have a far greater chance of retaining them.

**Wasley:** Many companies we work with have finely honed MBA recruiting programs that have served them well for years. However, MBA recruiting has become far more competitive and less effective, which has caused the companies to expand recruiting to the undergraduate level. More importantly, the development of robust retention programs has been instrumental in keeping employees, some of which have included sabbaticals, coaching, and short-term international assignments. However, the most effective way to retain employees long-term has been through equity participation that is vested over time.

*Are you handling executive level top talent differently from other management top talent? How and why?*

**Cherney:** From our perspective, every executive assignment is a high-stakes situation that demands attention from a company. With so many firms suggesting that they are only as good as their people, companies are continually identifying the critical competencies that will drive success in a particular situation and accurately assessing an individual's ownership of those specific competencies. Companies provide resources and training to their top executives so they can adapt to rapidly changing business cycles.

**LoPinto:** If the talent gap is serious, the top-talent gap is extreme. Once a candidate is selected, an organization must make it a priority to sell the company and the role in order to close. Recruiting is often lower on the checklist than it should be, especially for senior talent. Managing these individuals through a recruiting process requires a much higher degree of personal attention on the part of the employer and the recruiter. At the executive level, the issues associated with compensation, strategic positioning of the role within the organization, personal matters associated with relocation, and a host of other major and minor matters can foil a recruiting process. It is high stakes for both parties, and it behooves employers to make recruitment a priority, otherwise they may very well end up back at the drawing board.

**Scelzo:** Generally, other than focusing some of our wealth creation opportunities on top executives, we have not spent much time further differentiating our programs offered to these two groups. However, we are exploring areas where we may have opportunities to provide more and different experiences to top executives.

**Sessa:** We have recently brought on several new executives. We've focused on providing these new leaders with autonomy to run their businesses yet striking a balance by holding them accountable for results. This can be challenging in an entrepreneurial environment. We take the same approach with management top executives: empowering them to make independent decisions with ultimate accountability for achieving business objectives. Though challenging in an entrepreneurial environment, it is a model that works quite successfully. From a professional and leadership development perspective, both executive- and management-level talent are critical investments for the firm.

**Wasley:** We continue to handle executive top talent in the same way, which is with a very personal and customized approach. We spend a significant amount of time getting to know top talent in advance of the specific need in order to better serve both our candidates and our clients. With a dearth of new talent in the real estate industry, executives are being contacted more frequently by recruiters.

Finding talent in a shrinking workforce remains a challenge, especially with the baby boomers now retiring.

### Where do you see the most glaring demand? How have you shifted your strategies in order to find and attract new talent?

**Cherney:** The most glaring demand now is truly focused in Asia and Latin America. We have had to be quite flexible with respect to experience because the talent pool in real estate in those regions is quite thin.

Although we anticipated there would be a void of talent, we did not expect companies to be as flexible hiring those close to retirement age or beyond, especially for roles that have a two- to five-year timeline. For those early in their careers, technology and offshore outsourcing has enabled that group of professionals to be more efficient, so less staff is required to complete the same tasks.

**Costley:** Companies are finding it makes sense to cater to the individual lifestyle demands of older workers and those with families. Workplace flexibility is a key issue for today's up-and-coming leaders, and advances in technology are making it easier for companies to offer perks like flextime and telecommuting. Sometimes, offering a new parent or a baby boomer considering retirement the option of working part-time or from home a couple of days a week makes the difference in keeping that person within the organization.

**LoPinto:** If the baby boomers represent a "talent bubble"—a significant one at that—then the next generation of management, today's 35-somethings, who are moving into leadership ranks over the next ten years, will represent a serious "talent gap" as a result of the real estate collapse of the early '90s. It is going to be critical for today's leadership to make talent management and organizational development a priority. The situation is real estate's version of global warming—we act as if it is not there, and one day you are out of luck and out of time to solve the problem and compete effectively. In order to deal with this situation aggressively, the steps that are necessary are to:

- upgrade the human resource function to a C-suite role;

- institute a well-defined and managed "identified talent" program to build a solid succession plan for the company;
- ensure that your compensation plan is competitive, rewards for performance, and is oriented to long-term retention;
- establish aggressive recruiting programs at colleges and universities, utilize intern programs, and focus on bringing young talent into your organization.

**Selzo:** We continue to have the highest demand for talent at the entry early-experience levels and then at the middle-management level. Although the competition is fierce at the entry level, we do find that we can generally locate the talent through relationships at universities and employee referrals. So we continue to be able to generate strong candidate pools at this level. We tend to promote from within into management roles, so we do not do a high amount of recruiting externally for senior-level positions. However, when we do find that we must look for outside talent, it is a challenge. We may use professional search firms, but we try to rely on networking to fill these positions.

**Sessa:** From a functional perspective, we have experienced a glaring demand for brokerage professionals with two to seven years of experience. We have completed an analysis of our talent pipeline and determined that we need to focus more on building our talent from within. As a recruitment strategy, we rely on the management team to not only constantly identify and recruit but also introduce other strategies, such as enhancing our employee referral bonus program, creating marketing campaigns, and introducing specialists who strictly identify potential hires and put them into the recruitment process. We are also introducing more recruitment tools that help us build relationships with potential hires and increase our recruitment effectiveness. We will be educating managers on our employment brand to attract the right candidates, using our employment value proposition. These key branding messages will also be incorporated on all our recruitment materials as well as the career page on our website.

Our focus on learning is important to the type of people we are pursuing, as they want to continuously develop their skills, and we are addressing that need. We have developed a number of learning programs that are strongly sponsored by management, which speaks volumes to potential hires. These programs are leveraged heavily to recruit talent.

**Wasley:** The biggest void we see is in the succession talent for the current bench of CEOs and presidents in the indus-



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**Jay Costley**



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**Anthony LoPinto**

try. Typically, the players on that succession bench are in their late 30s to mid-40s and have been mentored by the CEO or president. However, a significant number have been lured away by other opportunities or have started their own opportunities due to the plentiful capital markets. We have responded in turn by getting to know the talent one level below (the early to late 30s), as well as considering talent outside the real estate industry that would be appropriate to transition into the industry. We also work with our clients to help them understand that it is not always cash compensation that drives an employment situation and to provide them with guidance as to the factors that are key elements, such as career path, mentoring, and equity participation.

*Relatedly, there seems to be a void in the middle management tier, (those with 10 to 15 years' experience in the industry). Have these employees been poached by other industries or did they never enter our industry in the first place? What is the impact of this void?*

**Cherney:** One of the most significant impacts of this void is title inflation, promoting less-experienced professionals through the ranks more quickly. However, the positive outcome is allowing those with exceptional talent a chance to step up. This scenario is similar to the late 1980s, when many of today's real estate leaders were rapidly promoted in the business and found a great deal of space to make a difference. Those high-performing professionals who creatively approached the market and demonstrated sound judgment succeeded. Innovation and entrepreneurship in an industry typically don't occur when newer talent is blocked or smothered by senior management. We believe the human capital dynamic offers a great opportunity to those who have entered real estate in the last ten years as the industry is being recognized institutionally and internationally as a dynamic asset class.

**LoPinto:** There has been a lot of talk about the “talent gap” since the collapse in the early '90s. It is real, and now it represents an acute problem that is impacting real estate organizations at all levels. Essentially, from 1990 until 2002, very few undergraduate and graduate students entered real estate. Following the market collapse in the early '90s, technology, the Internet, investment banking, and other industries did a much better job of attracting top graduates, leaving real estate with no foundation of talent for the next generation of growth. Now, 10 to 15 years later, mid- to senior-level talent in the 35-something range is just not there. This has created a serious imbalance in the structure of our organizations.

There has been the need to recruit relatively young professionals and move the best and the brightest along quickly—frankly, sometimes too quickly—along with their compensation. Unfortunately, this group has never seen a real estate cycle, and this will undoubtedly create performance issues when the next downturn occurs.

On the other end of the spectrum, companies are more aggressively recruiting more seasoned (aka older) players who, historically, might have been viewed as past their prime. Not so today. The 50-somethings are at a premium to help fill the gap and bring some “perspective” to the business as the young talent matures.

**Selzo:** I believe that the expansion of capital being invested in real estate over the years has pulled this talent into different areas. Because the real estate investment positions are not just in banks and large real estate investment management companies, more new players and smaller boutique firms have entered the market. These other sources need to have experienced talent and most likely cannot afford the time to invest in and grow their entry-level talent. The impact may be that the traditional or larger investment companies will need to focus on getting their younger talent ready for the next step as quickly and effectively as possible in order to fill the void.

**Sessa:** Commercial real estate is not an industry that has heavily advertised its opportunities in the past, and therefore not many people were aware of the potential lucrative careers within the industry. In addition, it can be a tough industry to break in to if you don't have the right relationships in place. As a result, it may be difficult for managers to envision that a talented individual can transfer skills and bring value without having commercial real estate experience. In the meantime, those who grew up in entrepreneurial positions tend to remain in those more lucrative roles and don't often move into management positions. This results in a void in middle management positions if developmental strategies have not been created to ensure that a pipeline for middle management is available. The impact of this void is when less-mature talent is placed into these critical positions, a manager who may not have the necessary experience to make the right strategic decisions and/or deal with management issues effectively. This can cause turnover due to a lack of trust in the manager's capability, flawed business strategies, and sometimes no strategic direction at all.

**Wasley:** The significant void in middle management was caused by the lack of people entering into the real estate in-



The major challenge we are facing in international expansion is finding qualified talent in countries or regions where the real estate investment management industry is not as developed. We do import our talent from other parts of the company, but we cannot ignore that cultural issues and the lack of knowledge about local practices will pose challenges.

**Darline Scelzo**

dustry from the early 1990s to the early 2000s—the “brain drain” as we refer to it. It wasn’t until the dot-com bubble burst and significant capital began to flow into real estate that real estate was redefined as a career path for many. The impact over the past four to five years has been significant and will continue to worsen when a negative adjustment in the real estate market occurs, and past experience in working out troubled deals is valued more significantly over current market knowledge.

*For those who are expanding internationally, what challenges are you facing and what are some of the solutions that are emerging?*

**Cherney:** There is, of course, a significant void of talent to fulfill demand internationally. One solution has been to consider professionals who are more versus less experienced and who may have already achieved success but who are excited about a new frontier.

**Costley:** Even our clients who aren’t yet investing overseas are watching the international markets closely. The BRIC foursome—Brazil, Russia, India, and China—seem to be the focus of the majority of the opportunistic investing at the moment. Although returns are attractive in these countries, the execution of investment strategies there is difficult; a host of other challenges exist, from finding appropriate operating partners to managing currency risk. Nonetheless, these regions appear to be the key areas of focus for many in 2007.

Obviously, managing a global enterprise is becoming increasingly complex, complicated by local laws, economies, governmental practices, and cultures, which all impact the business in a major way. Maintaining consistency in terms of process, approach, and investment philosophy also becomes a challenge, in addition to compliance, which varies by country. Because of these numerous complicated factors, many of our clients in the investment management business believe that execution risk is the real issue with globalization, rather than economic risk. So a big challenge is finding people with the ability to manage increasingly complex global businesses.

Interestingly, I know of several people running global enterprises right now who wouldn’t have thought just a few short years ago that they’d be stretching like that. In fact, some senior executives turn these types of opportunities down because they just don’t want to take on the challenges of running a global business. They’re a few years away from retirement, they’ve made a lot of money in the last decade, and frankly, they’re ready to slow down a bit.

There’s generally a low availability of talent that not only has a proven track record working abroad but also is willing to enter an expatriate assignment. Firms are finding they need to be more flexible with their requirements when hiring overseas. For example, there is a dearth of talent with prior experience in Asian markets, and companies are becoming more willing to hire executives who don’t necessarily have experience working in Asia but instead possess other indicators of future success, such as skill sets, language proficiencies, and educational experience.

Diversity initiatives are becoming more widespread, particularly as companies move toward more global platforms and realize the importance of having a workforce that speaks multiple languages and is comfortable moving across multiple cultures. It’s important to recognize cultural differences while finding individuals who fit into an organization’s overall culture.

Compensation is also a big factor when recruiting for overseas positions. Issues such as the reconciliation of foreign and domestic pay packages, regulatory and tax implications, employee benefits, and cost of living adjustments all need to be addressed.

**LoPinto:** The human capital side of international expansion is one of the most significant issues facing a company going global. History instructs us that the best approach to the management of international expansion is to recruit an individual or a team who is familiar with U.S. business practices and standards and can bridge language issues and learn the “lay of the land” in the new environment while gradually developing local talent to learn the new integrated business approach and manage the business on a going-forward basis. Ideally, if a company has been operating internationally, it is well prepared to plug in individuals who know the ropes of establishing a beachhead in new international markets. Unfortunately, the caliber of talent that is equipped to accomplish this kind of transition and subsequent integration is a rare and a relatively expensive commodity. If a company does not have the internal capability, I would recommend that it consider a two-pronged search process: Retain the best firm domestically to source talent that is equipped to manage the process, and retain a firm in the local market to scour there for a solution. Either way, it’s a talent-short market on the global front.

**Scelzo:** The major challenge we are facing in international expansion is finding qualified talent in countries or regions where the real estate investment management industry is not



as developed. We do import our talent from other parts of the company, but we cannot ignore that cultural issues and the lack of knowledge about local practices will pose challenges. We have tried to come to a balanced approach of temporarily moving investment professionals to help train local talent while mainly hiring local professionals with strong skills and backgrounds who can be easily trained.

**Sessa:** Our firm has grown rapidly in the last several years and primarily on the international front. One challenge is building and maintaining our HR infrastructure to support a rapidly growing business. We also need to strike the right balance between global integration and consistency and respect for local cultures and customs of the countries we're doing business in. Benchmarking best practices of multinationals that have already traveled down this road has been very helpful.

**Wasley:** China and India are the two markets we see expanding most rapidly, and with that expansion have come challenges in finding talent. There is limited resident talent in each country, and companies are now looking for qualified expatriates willing to relocate back to their home countries or for U.S. citizens willing to relocate. By utilizing our search partners in these countries, we are working on these challenges by understanding the cultural nuances in each area, meeting and getting to know the up-and-coming talent, and integrating not just the executives but their entire families into the new country.

*With increased privatizations and merger and acquisition (M&A) activity in the industry, how is human capital valued, as an asset not on the balance sheet?*

**LoPinto:** This is a very interesting question. In my opinion, there is a woefully inadequate level of underwriting of the "human capital" aspect of M&A transactions. The focus is 95% on the real estate, not on the people, who are the drivers of the business. Now, if it is purely an asset play, then the people don't count. However, more often than not, at least in the recent rash of deals, large organizations were also acquired, but the level of evaluation of the management teams, I speculate, was limited, at best. They are also missing an opportunity to acquire exceptional talent as a by-product of the transaction but aren't prepared to address their existing organizational issues to make room for new, better talent. It gets back to giving the HR function a front-and-center seat in the organiza-

tion to ensure full capitalization of the human element of the company.

**Selzo:** We have not directly experienced privatization or M&A activity in the recent past. However, my view is that the people are the true asset and differentiator in the financial services and advisory industry. Therefore, the human capital that any company has that is being acquired may be considered its most precious asset, and it should be a driving factor in the business decision to acquire or merge. Since mergers tend to fail more due to a lack of compatibility of the people rather than the economics of the merger, the human capital asset may be valued beyond the balance sheet or payroll numbers. Perhaps valuing human capital in a separate exercise that looks at individuals' skills, experience, and overall cultural alignment within the two organizations would be an appropriate measure beyond the straight financial picture.

**Sessa:** Maximizing the business strategy of privatizations and M&A activity is a key component of any global leader in our industry for both organic and acquisitive growth. As such, a subset of high-level M&A financial and human resources talent must be embedded with the business leaders responsible for such strategic activity. Once the specific business strategy and objectives of a particular business alliance are identified, these key individuals, along with the business leaders, identify the human capital that is both critical and necessary for those objectives. Financial analysis, individual talent assessment, and overall human capital program review are then part of the due diligence process that assigns value. Once the human capital value is identified, retention of targeted talent is a key incentive and compensation component for the new business leaders. Compensation, "partnership," or stock awards and contractual commitments are tied to the long-term retention of key business leaders and professionals. Overall human capital programs and business culture are also valued to ensure the new blended culture enhances and promotes the firm's people and profitability goals.

**Wasley:** Traditionally, due diligence on a potential acquisition was focused on financial records and physical assets, with only a cursory review of the human capital (except executive management). However, private equity firms have observed that failed acquisitions are most often due to having the wrong people instead of the wrong strategy. The latest trend we see is that private equity firms focus on people who have domain expertise and a unique idea who are then funded. With this trend, we are seeing people put before the actual deal. ■