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Wealth Management Firms Can Leverage Enterprise Value to Better Address HNWIs' Complex Post-Crisis Needs

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Spotlight

Wealth Management Firms Can Leverage Enterprise Value[20] to Better Address HNWIs' Complex Post-Crisis Needs

- **Wealth management firms and Advisors have overwhelmingly regained the trust and confidence of HNW clients** since the financial crisis, so the imperative for Firms and Advisors is to help HNW clients manage the complex mix of goals, concerns, and priorities they now face. The task is complicated by the fact that HNW clients still lack trust in regulators and, to a lesser extent, financial markets.
- **Firms could drive significant HNW client satisfaction by leveraging "Enterprise Value" to deliver an integrated response to HNWIs' complex post-crisis needs.** The highest priority will be to deliver a relevant enterprise proposition in areas where HNWIs see substantial value but are less than satisfied to date. Key examples of sought-after cross-enterprise capabilities (or "value levers") are: Cross-enterprise expert advice teams; unique investment opportunities through the investment bank; preferred financing for entrepreneurs; and advice/expertise from the private bank and the investment bank during the wealth-creation process.
- **Today's post-crisis, client-driven Enterprise Value paradigm is very different from yesterday's Firm-driven search for synergies.** Many financial services firms have tried to capture and leverage Enterprise Value before, typically seeking the benefits of synergies, but those attempts have often fallen short. Now, forward-thinking Firms need to build Enterprise Value strategies and investment programs from a client-benefit perspective. This will still mean facing up to the significant challenges that exist in doing so, from ensuring strategic commitment to managing incentives and establishing support mechanisms.
- **The Enterprise Value approach could be an especially important differentiator for Firms** that need to be more responsive in today's highly competitive market. It could also help Firms to position themselves better to respond to longer-term shifts in the demographics of the HNW segment. At the same time, there is still potential for Firms to capture financial benefits. Enterprise Value is a long-term evolution and commitment, however, not a short-term fix.

HNWIS HAVE REGAINED TRUST IN ADVISORS AND FIRMS BUT ARE MORE CONSERVATIVE AND MORE VIGILANT POST-CRISIS

HNWIs' Faith in Advisors and Wealth Management Firms Has Slowly Been Restored

In 2010, as financial markets and economies rebounded across the globe, 98% of HNW clients are believed to have trust and confidence in their wealth management Advisors and 88% in their wealth management firms ('Firms'). This endorsement stood in stark contrast to 2008, when nearly 50% of HNW clients were losing trust in their Advisors and Firms (see Figure 15, pg. 26). Trust and confidence in regulatory bodies and institutions is far from restored, however. Only 44% of HNW clients had faith in oversight bodies in 2010 and nearly one-third still actively distrusted these institutions.

This mixture of trust and misgivings reflects a long and sometimes painful journey for HNWIs in which they have rethought their investment goals and weighed heavily the amount of risk they are willing to assume to reach those goals. The process has also caused HNW investors to be newly demanding of their Firms and Advisors. This presents a significant opportunity for leading Firms that are able to address the breadth and complexity of client needs, particularly if they can leverage against their broader enterprise capabilities.

[20] Enterprise Value: The ability to leverage capabilities from across different business units in order to differentiate in meeting client needs.

HNWI Asset Allocations Are Still More Conservative than before the Crisis, Partly due to Diminished Trust in Markets and Regulators

Asset allocations at the end of 2010 showed a continued easing of crisis-related concerns and a cautious search for returns by HNWIs, but HNWIs still held US$18.6 trillion or 43.5% of all their assets in conservative instruments (fixed-income and cash/equivalents)—even though global equity-market capitalization had risen 18.0% in 2010 and 46.3% in 2009.

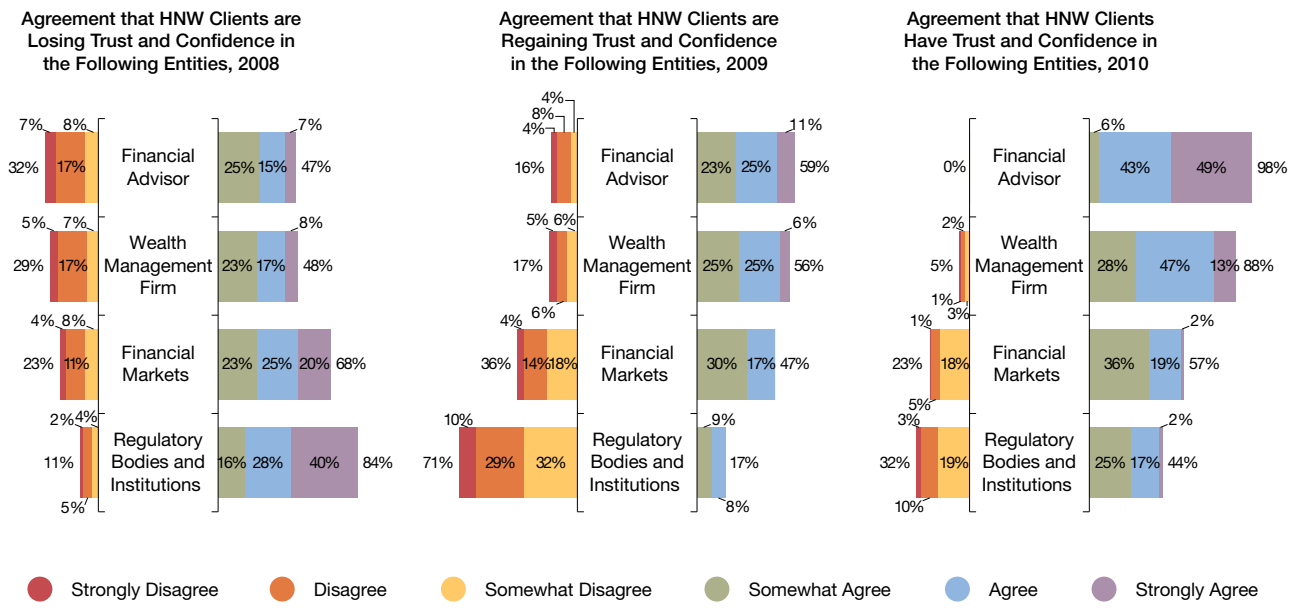
The fact that HNWIs still hold a significant portion of their assets in low-yielding instruments clearly demonstrates the effects of the crisis on the investor psyche:

- HNWIs remain uncertain that markets will remain stable and that the financial crisis is over, and they fear that new and unforeseen systemic shocks could emerge.
- HNWIs are cognizant that global politics and economics are converging in decisions about interest rates and many other policies, which could affect future market returns.
- HNW clients are heavily focused on attaining specific life-goal benchmarks, not just arbitrary investment goals. As a result, many are committed first and foremost to preserving capital built to fund their life goals.
- HNW investors are not easily convinced that alternative or emerging opportunities are worth the risk—or at least not as easily convinced as during the bull-market years when all investments seemed to return some type of positive yield.

In this post-crisis environment, Firms and Advisors must remain mindful of client concerns but cannot disregard their fiduciary responsibilities. In 2011, for example, Advisors could soon need to discuss with HNW clients whether they are being overly conservative, especially as rising inflation eats into already low returns on certain asset classes. This conversation will be necessary whether clients are looking to preserve capital or capture higher yields, and it will require Advisors to have a sophisticated understanding of their clients so as to deliver a viable strategy that resonates.

FIGURE 15. HNW Client Trust Levels, 2008 – 2010

(%)



Note: Questions asked each year were slightly different, but the message remains clear – Firms and Advisors are well-trusted by clients globally but regulators and markets are less so
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Surveys 2009, 2010, 2011

HNWIs Are Sensitive to the Effects of Macro Trends and Taxes on Investment Performance and Goals

Client conversations will obviously depend on individual needs, but it is clear the crisis has generally made HNW investors more sensitive to the potential for macro trends to undermine the performance of their own portfolios and their ability to meet specific investment and life goals.

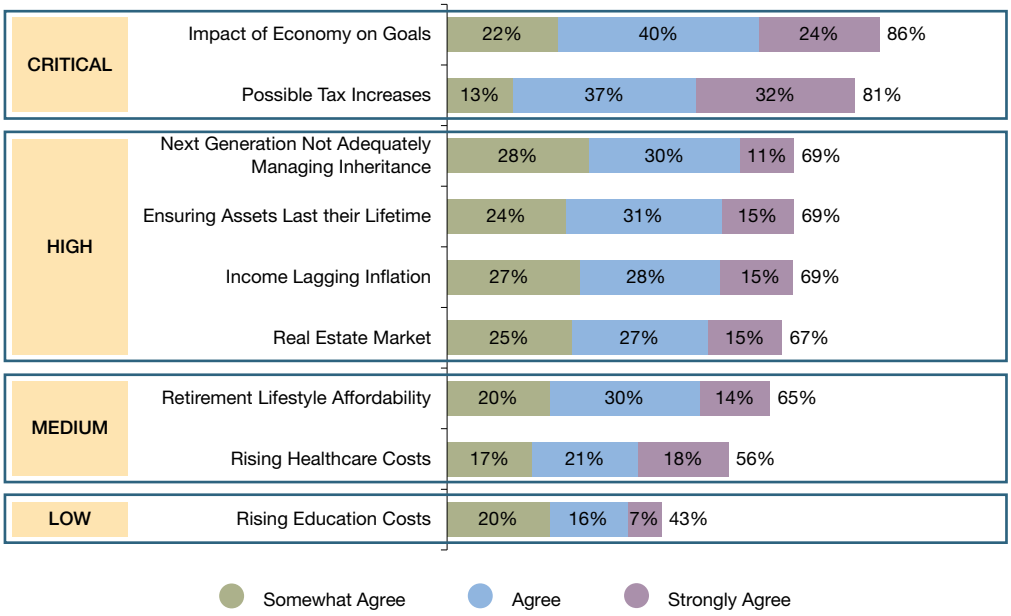
The financial crisis resulted in an economic downturn in developed economies that has played out very publicly—as have the efforts by governments around the globe to offset the effects and put their economies on a balanced-growth trajectory. This has left HNWIs with a whole swath of new concerns (see Figure 16). Most critical are the general unease about the impact of the economy on financial goals and fears that tax rates will be hiked, reducing income and net portfolio returns and potentially making the movement of assets across jurisdictions more inefficient and costly.

HNWIs' other major concerns include worries that assets will not last their lifetime, that the next generation will not be able to properly manage their inheritance, and that income will not keep up with inflation.

HNW clients have lived in recent years through both bull-market run-ups and staggering losses, so the breadth and depth of their concerns is hardly surprising. Still, it will be a challenge for Firms and Advisors to develop a proposition that resonates in this environment—where HNWIs have clear life and investment goals but may be fearful of risking capital to generate returns to fund those goals.

FIGURE 16. Major Concerns of HNW Clients, 2010

(%)



Note: Percentages may not add up to totals due to rounding; Question asked: "Please indicate to what extent you agree or disagree with the following statements about which concerns your HNW and UHNW clients are most worried about"
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

HNWIs Want to Preserve Capital, Demand Expertise

After the rollercoaster ride of recent years, nearly all HNWIs (97%) say capital preservation is important to them and a large number (42%) say it is extremely important (see Figure 17). Similarly, effective portfolio management is deemed important by 94% of HNWIs and extremely important by 30%. The crisis has not only made these needs more acute, it has raised or created the priority for newer issues, including specialized advice (important to 93%) and transparency on statements and fees (93%).

As HNWIs look to attain life goals, they are also even more engaged in their financial affairs than in times past. This engagement itself creates new demands. For example, many HNWIs (84%) say more frequent / innovative communication is now important to them. And while the frequency of advisor contact is likely to bolster investor satisfaction, HNWIs also expect choice in the means of communication, including tools such as digital media and mobile applications. The underlying imperative, though, is to make sure HNW clients feel their Firms and Advisors are fully accessible to them—whether the client wants to be proactively involved in managing their assets or simply wants to check in.

Many HNWIs (82%) also say succession-planning capabilities are important to them—another indicator that HNWIs do not want to jeopardize their legacy in the search for investment returns.

FIRMS FACE A NEW INDUSTRY REALITY

As Firms and Advisors work to respond effectively to the evolving needs of HNWIs, it is important to note they also face changing economics and operating demands in their own industry. These dynamics mean Firms cannot afford to do more of the same to satisfy HNW clients going forward.

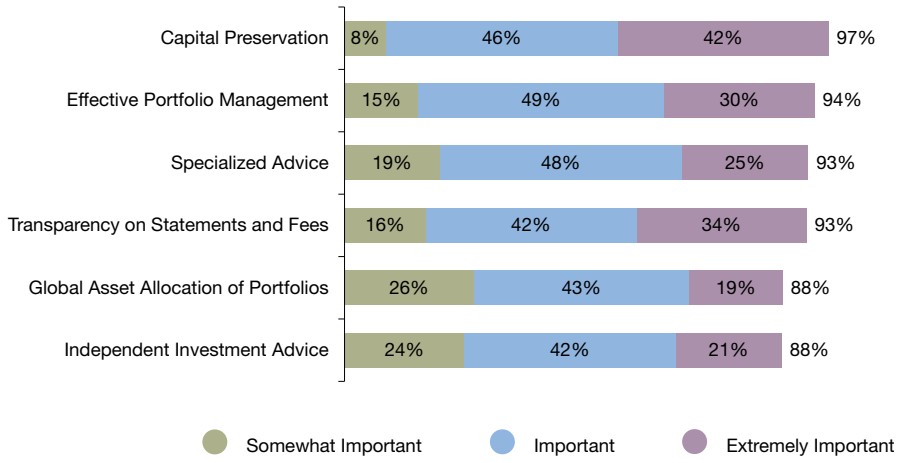
Wealth Management Profit Margins, While Resilient, Have Been Gradually Declining

Within diversified financial services firms, wealth management profit margins have been more stable than those of the broader financial services organization. Among a select group of major financial services institutions (FSIs) that report wealth management profits separately, the aggregate pre-tax profit margin from wealth-management units dropped more than 300 basis points from 2006 to 2009. But that compares with a massive decline during that period of more than 3,000 basis points for the FSI enterprises overall. That slump was due largely to losses in investment banking and asset management.

However, despite their relative resilience, wealth management margins have been steadily eroding each year since 2006, and dropped 320 basis points in 2010. This decline occurred as Firms absorbed increased costs from compensation (recruiting and retention) and regulations (new burdens in processing, IT and training) while investors remained heavily invested in conservative instruments that generate limited fees.

FIGURE 17. Top Six Priorities of HNW Clients, 2010

(%)



Note: Percentages may not add up to totals due to rounding; Question asked: "How important are the following to your clients?"
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

These dynamics illustrate the added pressure on Firms to demonstrate a value proposition for which HNW clients are willing to pay. Developing such a proposition will be critical to the sustainable growth of Firms going forward and will require a move beyond 'more of the same' into innovations such as 'true' Enterprise Value (versus basic synergy seeking).

Wealth management certainly remains an important and fairly stable cash-revenue stream for FSIs, which may face new regulatory limits on other revenue generators such as proprietary trading. At the parent-firm level, FSIs must also set aside more capital in reserves than in the past, restricting the amount of capital on which they can generate returns.

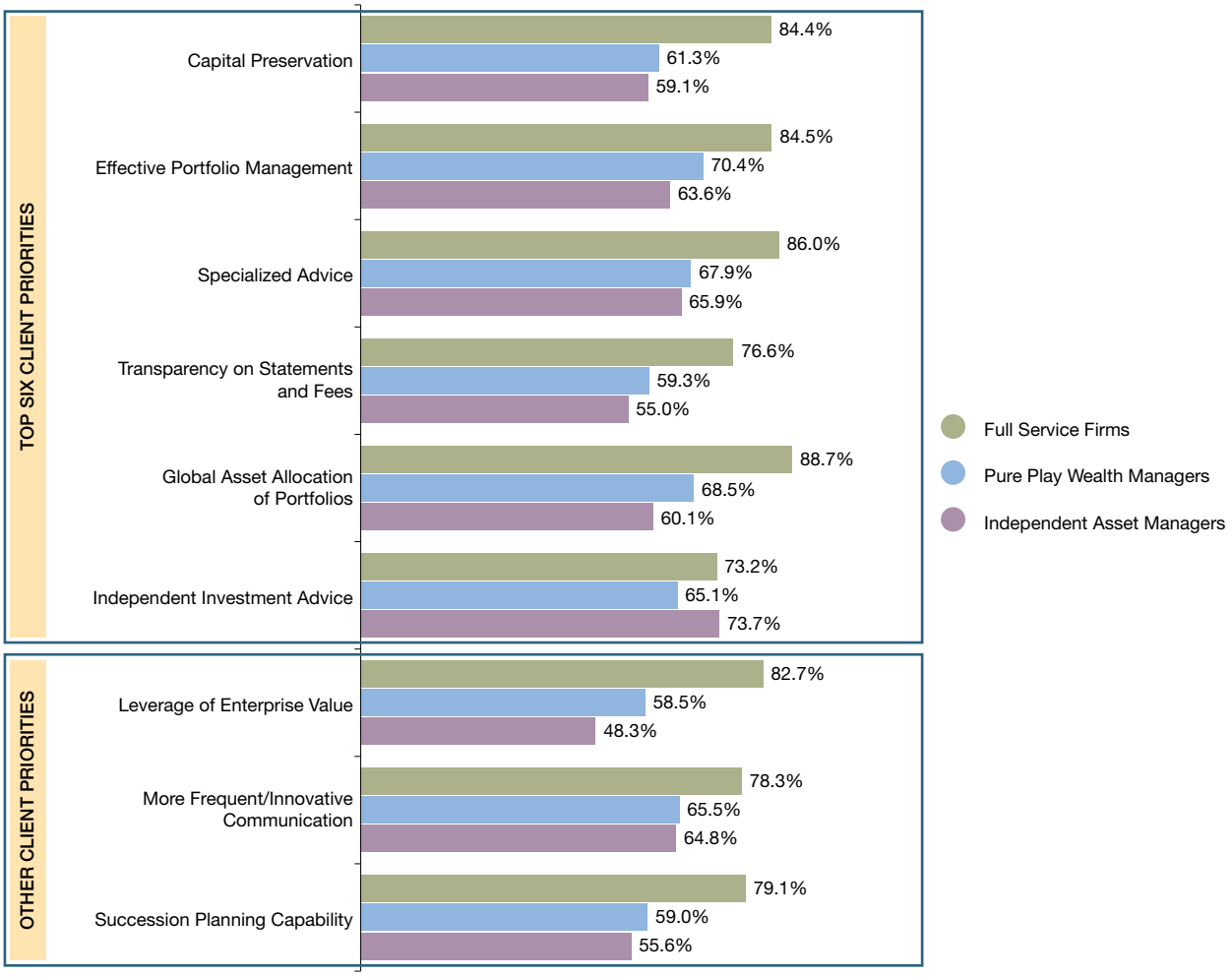
FULL-SERVICE FIRMS ARE LIKELY TO BE BETTER POSITIONED TO WEATHER CLIENT AND INDUSTRY SHIFTS

Well-capitalized, experienced, full-service Firms are likely to be well-positioned to address many of the new industry and client realities discussed (see Figure 18), and may have the scale to adapt.

More specifically, full-service Firms are perceived to be far better positioned than pure-play wealth management firms or independent asset management (IAM) firms to meet current HNW client priorities such as capital preservation and effective portfolio management, specialized advice, and more frequent/innovative communication. Not surprisingly,

FIGURE 18. Advisor Perceptions of Which Firms Are Well-Positioned to Address HNW Client Priorities, 2010

(%)



Note: Question asked: "Please rate to what extent you feel the following firm types are well positioned to meet new client demands"
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

given their global scale and broad capabilities, they are also perceived to be in a better position to leverage Enterprise Value and provide global asset allocation needs.

IAMs, a nascent industry segment that grew during the low-trust crisis years, are generally felt to be least positioned to manage the complex needs of HNWIs today. Independent advice is one area in which IAMs are well-positioned by definition. However, IAMs must be able to demonstrate to HNW clients the value of paying extra to outsource asset management. They must also manage rising industry costs—which all participants face but IAMs must absorb across a smaller-scale enterprise.

For full-service Firms to make the most of their natural strengths, however, they may need to offer a fully integrated response that leverages the value of the broader enterprise to meet HNWI needs. Enterprise Value could be even more relevant to Firms serving or trying to enter certain segments, including Ultra-HNWIs and entrepreneurs.

ENTERPRISE VALUE COULD BE KEY FOR FIRMS AND HNWIS IN THE POST-CRISIS PARADIGM

The challenge for the industry then is how to adapt and target a relevant post-crisis value proposition for HNWIs while margin pressure is growing. One critical differentiator could be the ability of Firms to rally additional capabilities from other business units such as investment and corporate banking—i.e., leverage Enterprise Value.

Visions of Enterprise Value are not new, but the iteration discussed here—and scantly practiced so far—is a direct response to the fact that HNW clients expect their relationships with Firms and Advisors to create more sustained and broad value than in the pre-crisis years when HNWIs focused heavily on chasing yield. Firms therefore need to design a balanced Enterprise Value approach that can, in this environment, create value for the client and financial dividends for the Firm.

Firms Should Think about Enterprise Value from the Client Perspective

Previous attempts by Firms to leverage Enterprise Value have yielded some strategic and bottom-line benefits, primarily cost synergies and easier access for one business unit into the client base of another (though that was often viewed from a short-term return on investment (ROI) perspective). Firms can still garner those benefits today. They can, for example, tap into the realm of HNWIs who have created their wealth through investment banking and acquire them as wealth-management clients. But despite the Firm benefits, the Enterprise Value concept today links directly to the growing complexity of HNWI demands.

From the perspective of HNW clients, Enterprise Value could help deliver some important benefits, including:

- A more global overview of wealth, which could be especially important to HNWIs with extensive business interests who might need corporate or investment banking services.
- Potential access to investment opportunities once reserved for institutional clients.
- A more harmonized and consistent service offering.
- Access to a wider range of resources and complex capabilities through one point of contact.

If Firms can deliver such benefits, their HNW clients are likely to perceive more value in the relationship. It is hardly surprising then that the potential of Enterprise Value has already started to pique the interest of HNWIs and Advisors. In fact, 89% of surveyed Advisors said 'better leveraging the full value of integration across investment and corporate banking, asset and wealth management' is an important part of their Firm's approach/strategy for HNW and UHNW clients. However, only 57% agreed that their Firm was able to leverage Enterprise Value for client benefit.

The key for Firms is to focus on the specific linkages that create value for HNW clients. This requires a kind of flexibility and responsiveness that represents a significant shift for many Firms. But it could also be a great opportunity for astute Firms to demonstrate their commitment and value to HNW clients, and to draw a visible distinction between their post-crisis proposition and the pre-crisis years.

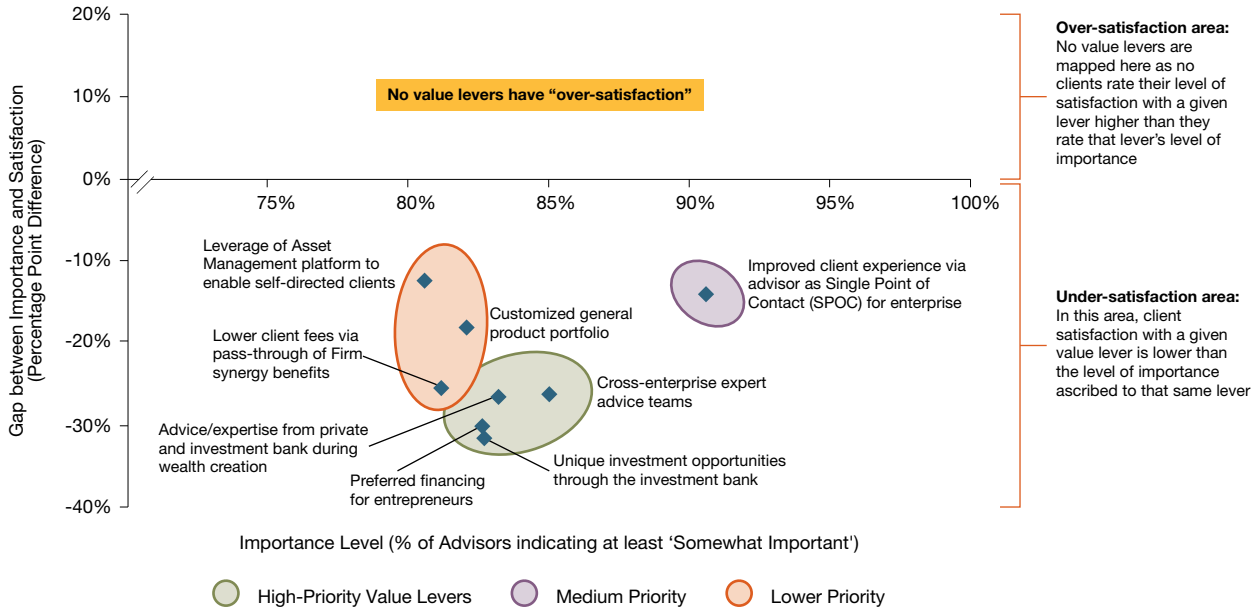
HIGHEST PRIORITY FOR FIRMS IS HNW "VALUE LEVERS" THAT ARE IMPORTANT BUT POORLY SERVED

There are numerous Enterprise Value linkages that are important to HNW clients and our research shows HNW clients are currently less than satisfied with all such enterprise "value levers". This suggests Firms have a significant amount of work to do if they hope to leverage Enterprise Value successfully.

To start out, though, Firms and Advisors could focus on those value levers in which client priority is high but satisfaction is not. We found four value levers in particular that fall into this category (green bubble on Figure 19): Cross-enterprise expert advice teams, unique investment opportunities through the investment bank, preferred financing for entrepreneurs, and advice/expertise from private and investment bank during the wealth-creation process.

FIGURE 19. Importance of and Satisfaction with Enterprise 'Value Levers' Among Global HNW Clients, 2010

(%)



Note: Questions asked: "Please rate the importance to HNW clients of the following enterprise 'value levers'" and "Please rate the satisfaction of HNW clients with the following enterprise 'value levers'"
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

In asking senior wealth management executives about their ability to deliver against the highest priority value levers, the responses revealed the opportunities in these areas, and highlighted some of the challenges:

Cross-enterprise expert advice teams

Executives say it is critical for HNW clients to retain a single point of contact with the Firm but that everyone in the Firm should be willing and able to participate in expert advice teams. This would make Firm-wide expertise more accessible, since it can currently be hard to find and tap into. Executives acknowledge, though, that the behavior may need to be incentivized through accreditations and other measures. They also note the need for such teams becomes more critical with certain client segments, including Ultra-HNWIs, where more sophisticated or complex solutions are highly valued.

Advice/expertise from private and investment bank during the wealth-creation process

Executives see significant value in being able to tap certain experts on an ad hoc basis and report particular success when experts become engaged early in the wealth-creation process. These interactions, they say, are not utilized widely enough at present, but will become increasingly important going forward to keep trust, confidence, and satisfaction high among HNW clients.

Preferred financing for entrepreneurs

Preferred financing is obviously relevant only to certain HNWIs, but these facilities (mostly likely via the corporate bank) can generate and improve "stickiness" in those HNW client relationships, because they represent a differentiator. Entrepreneurs are typically highly demanding clients and they value services they cannot get elsewhere. Executives say that by providing financing facilities, Firms may improve their chances of getting more of the entrepreneurial HNWI's business. But they also recognize that, especially in the current environment, Firms have limited lending capacity and will need to think through carefully the risks they assume when extending financing to entrepreneurs.

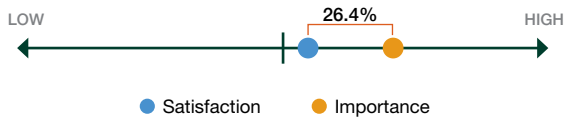
Unique investment opportunities through the investment bank

Many Firms already provide certain high-value segments (e.g., Ultra-HNWIs) with access to products and services that are not available to the broader HNWI or general investing populations. However, executives say there could be more opportunity for Firms to leverage Enterprise Value to direct certain clients to specific opportunities based on their investing and risk appetites and goals. This could generate value for both the Firm and the client, but these interactions are by definition highly individualized.

FIGURE 20. HNW Client Importance/Satisfaction Gap for **'Cross-Enterprise Expert Advice Teams'**

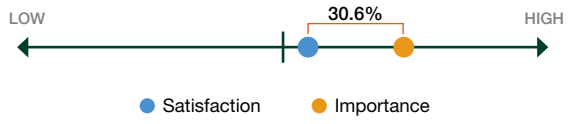
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

FIGURE 21. HNW Client Importance/Satisfaction Gap for **'Advice/Expertise From Private and Investment Bank During the Wealth-Creation Process'**



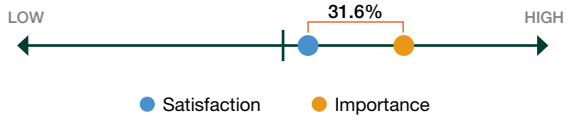
Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

FIGURE 22. HNW Client Importance/Satisfaction Gap for **'Preferred Financing for Entrepreneurs'**



Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

FIGURE 23. HNW Client Importance/Satisfaction Gap for **'Unique Investment Opportunities Through the Investment Bank'**



Source: Capgemini/Merrill Lynch Global Wealth Management Advisor Survey 2011

FIRMS STAND TO REAP SIGNIFICANT BENEFITS AFTER OVERCOMING CHALLENGES

In the post-crisis paradigm, Enterprise Value clearly has potential to create value for HNW clients and Firms. It could also help Firms to position themselves better to remain responsive as the demographics in the HNWI population shift, changing still further the needs and expectations of clients (see Demographic Sidebar).

The challenges of delivering Enterprise Value, however, remain extensive—from the need to ensure appropriate strategic commitment at the Board and CEO-level to managing incentives and establishing support mechanisms. Regulation is a newly critical factor since the separation of certain activities may be mandated. Even when it is not, clients may prefer to see distance between business units after seeing the contagion effects of the crisis.

To leverage Enterprise Value effectively, Firms will certainly need to understand the benefits and challenges at each level of the broader enterprise and advisory relationship, and make a determination as to the net effects. Some of the key considerations include the following:

At the parent level:

- **Benefits** include the potential for a lower cost-of-funds and higher trading flows delivered from wealth management into other business units. Firms have to respect strict regulations regarding asset and liability management, but there is nevertheless room to capture such benefits. The parent can also internalize margins via use of wealth management as a distribution platform to help optimize enterprise financial management. The potential for client referrals also remains an important dividend. Secondary synergies include cost-sharing (e.g., on real estate and services). Firms that deliberately position Enterprise Value as a differentiator could enable sustained success, especially if their wallet share can be expanded by diversifying the options available to clients who value new opportunities via other business units.
- **Challenges** include the potential for reputational risk to the wealth management brand if scandals or losses are reported in units with which wealth management has promoted a close association. Legal risk could also result as some acts and regulations prohibit use of funds across different business units and if conflicts of interest (real or perceived) are not properly managed with firewalls and other measures it could lead to further challenges. Risk management will also be critical as Firms may need to assume more risk on their balance sheets to enable some of the Enterprise Value levers. Many Firms could also face capability gaps, since few can deliver the same solutions and experience in each region (because of regulation and customer preferences). And many Firms will also need to address cultural issues since Enterprise Value requires a new level of cooperation and coordination and the culture of one business unit may be very different from another—especially if units have been acquired rather than organically grown.

At the business-unit level:

- **Benefits** include extra revenue and easier market entry. One leading global Firm estimated that for every US$100 of revenue that entered its private bank in 2007, a further US$37 was generated for other business units. Leveraging existing corporate-banking relationships (which are often long-standing, trusted relationships) can also be an efficient way to quickly build a private banking client base, as well as leveraging the investment bank for IPOs and other capital raising activities.
- **Challenges** include motivation and incentives. Investment bankers, for example, are used to dealing in hundreds of millions of dollars (rather than the millions often managed in private banking), so they will need to be adequately incentivized to serve HNWIs. Relationship management is also a key concern, because Advisors must ensure HNW clients are not handed off from one unit to another, but are rather shepherded through a series of highly professional, integrated interactions. A dedicated relationship manager will almost certainly need to monitor all their clients' interactions and mitigate emerging risks if other units fail to be responsive. This could be a significant undertaking as those interactions may also take place across a large number of sub-units, such as the rates, currency and commodity trading desks, which might be actively but indirectly involved in executing a HNW client's strategy.

At the distribution level (Advisors and Advisors' managers):

- **The main benefits** are improved relationships and positive perceptions among HNW clients that the Firm is positioned to manage their needs and expectations, however expansive, at any time.
- **Challenges** include the need to offer a wide array of products to HNWIs—many of whom now want to be fully engaged in the process of choosing products on their own merits. (The rise in open-source platforms has anyway been driving a move away from purely proprietary products.) Advisors will also need to develop their own relationships with other business units and trust in their ability to partner in providing an integrated proposition to HNW clients.

SOME FIRMS ARE ALREADY DEPLOYING INNOVATIVE ENTERPRISE VALUE TACTICS

There are already some creative examples of client-driven Enterprise Value in practice in the wealth management industry. While a few Firms are taking a strategic approach to building a comprehensive Enterprise Value proposition, many Firms' early forays are more tactical. Still, these tactics offer some innovative solutions to Enterprise Value bottlenecks as Firms decide whether and how to implement more broadly.

Examples include:

- **A 'bank-within-a-bank' approach**, in which a Firm creates a dedicated investment bank to serve HNW clients rather than force the HNW relationship onto the existing investment bank. The major benefit is that the Firm skirts implementation challenges such as motivating a corporate investment banker to raise US$20 million for an entrepreneurial HNWI. The bank-within-a-bank can use its own criteria to serve the HNW client, probably at a lower fee than the client would pay elsewhere, while ensuring long-term follow-through and service quality. The major challenge with this approach is ensuring profitability for the bank-within-a-bank, which is obviously a microcosm of the main investment bank and may be unable to operate (at least at any real scale) outside its home region.
- **Partnerships:** There may be times when no incentives will convince an investment bank to respond to a HNWI's request (in times when initial public offerings are booming, for instance, the minimum IPO size may be far above the HNW client's IPO). Rather than simply turning the client away, some Firms opt to present them with a 'Partnership Panel' of other Firms. This service provides the HNW client with some options (though none is recommended specifically), and helps to keep the client relationship intact, improving the chances that the client will return post-IPO with assets to be managed.
- **Incentives** to encourage co-operation. Some Firms are seeking to provide mechanisms to ensure cooperation is consistent. At least one is centralizing client-relationship oversight into a unit charged specifically with identifying and executing collaboration opportunities consistently. The effort is driven from the top (the CEO's Office), but supported by incentives such as negotiated revenue-sharing among business units and sub-units such as trading desks. The incentives are greater for sustained interactions than for one-off referrals, and the unit works actively to educate and incorporate the concepts into multiple layers of the business (incentivizing directors, vice-presidents, associates, etc.)
- **Use of applications targeted to popular technologies.** Many Firms have started to offer technologies to appeal to their tech-savvy clients, but these technologies potentially give HNW clients greater access to Enterprise Value too. For example, some Firms have launched mobile technology applications that allow HNWIs to see portfolio statements integrated across business units, download research, and execute asset re-allocations.

While these initiatives are useful short-term, many are tactical fixes that only give Firms the semblance of an Enterprise Value approach, so Firms will need to articulate and execute a more comprehensive strategy to succeed on this path for the long term.

PRIORITIES IN ENTERPRISE VALUE IMPLEMENTATION ARE COMMUNICATION, INCENTIVES, AND SUPPORT EXCELLENCE

Since Enterprise Value is now a client imperative, the chances of success are arguably much greater than when Firms primarily sought synergies from integration. However, the approach still involves significant challenges that span strategy, culture, regulation, processes and business-model economics. Enterprise Value represents a form of transformation that will require commitment and patience, and attention to three distinct priorities:

1. **Communication.** Firms will need from the outset to articulate a strong and consistent message in support of Enterprise Value, because implementation could challenge the corporate culture of participating business units. The strategy will need to be mobilized from the Board and CEO-level down to regional and business unit CEOs and beyond. And it will need to draw on the insights of all stakeholders to set and incorporate realistic long-term targets and benchmarks for success, and provide people with the construct in which to effect real change.
2. **Incentives.** Firms will need to create and implement an Enterprise Value model that can be profitable. Key considerations will include issues such as which business units and which HNW segments or clients are in scope (it is unlikely to be financially viable for every HNW client). The way in which incentives are structured and negotiated among business units and sub-units (e.g., trading desks) will be critical (see below for more detail).
3. **Excellence in enabling functions.** Enabling functions such as IT will need to be evaluated, monitored and perhaps revised. Key will be the need to provide a consistent global experience for IT systems (at both the regional and capability levels) while mitigating compliance and conflict-of-interest risks. Scalability will be another consideration given the protracted term of the transformation.

Incentives and Other Remuneration Practices Have to Be Tackled Proactively

Incentives are arguably the thorniest element of Enterprise Value enablement, and could pose a stumbling block if not handled proactively. Two initiatives are already emerging as viable tactics:

- **'Hard dollar' incentives** align well with commission-based compensation models prevalent in the broker/dealer advisory model, and tie payouts to the value added by the contributing individual or unit. The financial dividend for collaborators can be a powerful tool if payout ratios are designed properly, but those ratios are complicated to establish and must take account of direct stakeholders such as investment bankers as well as sub-unit participants such as desk traders.
- **Dual (or shadow) accounting** is simpler than the 'hard dollar' approach to implement (there is less negotiation up-front for example) and it aligns incentives across the entire organization as all participating units recognize the full revenue. This system also works well with 'salary-plus-bonus' compensation schemes seen in some European wealth management firms, as well as in boutique Firms. However, back office processing can be complex, and the protracted payment schedule may curb the enthusiasm of stakeholders.

Notably, some Firms are also providing non-financial rewards through accreditation and internal-recognition programs to help inculcate the Enterprise Value culture more deeply into the organization. Moreover, they are targeting not only senior stakeholders but lower-level employees who are likely to ascend to more influential positions in the longer term.

Conclusion

The concerns and priorities of HNW clients have been made more complex by the financial crisis, and Firms need to find ways to remain highly relevant as HNWI investing behaviors continue to evolve. The post-crisis environment requires a higher degree of responsiveness and flexibility than in the past and more often requires Firms and Advisors to bring to the table capabilities that reside in other business units/entities. Many Firms will therefore be challenged to keep delivering a value-added proposition, especially amid industry headwinds such as lower margins, higher fixed and variable costs and increased regulation.

Firms that can successfully leverage Enterprise Value to meet the needs of their HNW clients will be differentiating their brands in this highly competitive and challenging environment—and doing justice to the considerable faith HNW clients now place in their Advisors and Firms.

But focusing on Enterprise Value is a transformation, taking time and patience and an eye for longer-term ROI measures. Continuity is critical since HNW clients will want to be assured the proposition will remain throughout business and investment cycles. Firms will need to position themselves carefully, bearing in mind how Enterprise Value aligns with business goals, strategy and ambitions, and how viable in scale and scope it is across locations and segments.

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