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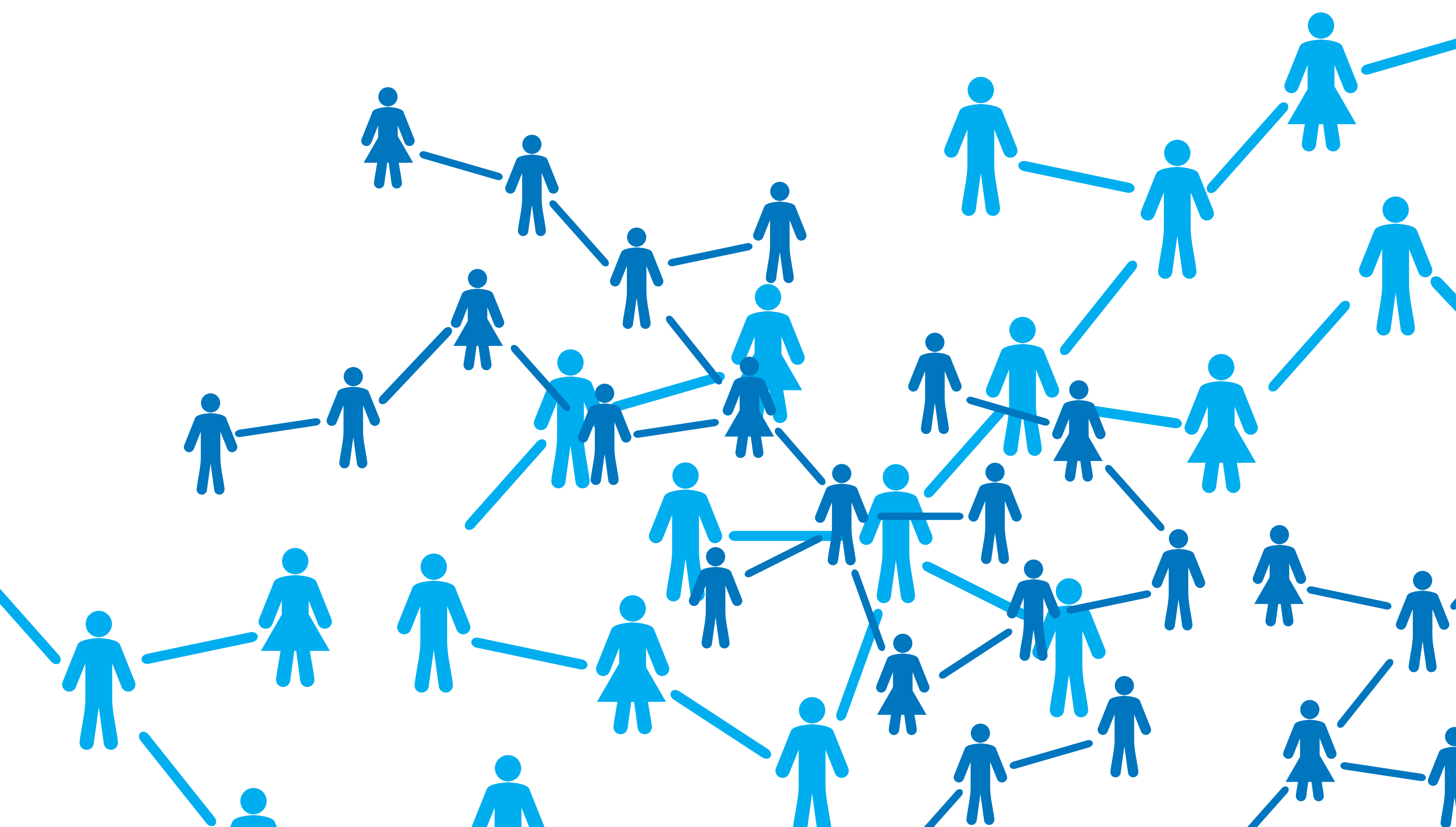
FINANCIAL SERVICES PRACTICE

Creating an asset management leadership factory

Asset managers aren’t known for developing, retaining, or sustaining leaders in a systematic way. The industry’s changing competitive dynamics suggests they’d better learn how.



When it comes to developing leaders, asset management companies are rarely considered along the same lines as traditional "academy" companies such as General Electric or P&G. Indeed, it's no secret that most asset management companies apply little effort in designing curriculums for people development or in ensuring they are nurturing the next generation of leaders. Few use well-structured succession planning programs. Most simply haven't needed to, given the success of the industry in recent years. The general model of generating good performance, gathering assets, and organically adding products has not fundamentally changed in decades. Up until now, the business model has allowed organizations to weather downturns relatively well and reap outsized profits when the economy is strong.

But those times are changing as new forces take hold of the industry. Globalization is escalating management challenges. Regulation is reshaping the landscape. Consolidation is changing the players around rapidly. Trust with clients continues to need bolstering and, in some cases, restoring. New technologies promise to be game changers. Customer demands for new products and services (exhibited by, most notably, the rise in passive investments and customized solutions over the past decade) are constantly changing in the midst of market unpredictability, which is expected to continue.

Against this backdrop, the traditional model for developing CEOs and top management in the industry has struggled to generate the level of management talent required. Consequently, the sector's business owners are applying more direct management pressure than ever. Having a more long-term, deliberate, and, in some cases, unorthodox approach to growing leaders organically in the asset management industry is a topic that deserves far more attention than it is getting today. Executive development and succession planning are critical in supporting the execution of every asset management company's strategic and financial agenda.

This is already evident in other industries. Many of the best global organizations, for example, seek to be viewed as "factories" for excellent leadership talent. They allow high-potential employees the opportunity to develop leadership muscles by placing them in new and challenging environments, and do so systematically. Healthcare companies, for instance, may take a promising scientist in R&D and give her a marketing challenge to round out her corporate perspective and flex her social-influencing skills before giving her wider responsibility for operations in a new region. Given the size, scale, and complexity of many large organizations, it is arguably easier to allow for this kind of development in such environments than it is in asset management. Save for a few leaders in very large firms, most asset managers have three potential pockets of development: operations, investments, and distribution. Given the specialized nature of each function, repurposing talent to foster "stretch" growth is often seen as too much of a hurdle and too time consuming for the organization. Moreover, many asset managers view with skepticism the idea of cross-pollinating talent from unit to unit because of the potential threats to investor confidence that could result.

This is a mistake, although perhaps an understandable one. Most of the existing leaders in the industry today have "grown up" in one of its organizational silos. When promoted, they face challenges in learning what they need to know to oversee and manage the other areas. Their recourse traditionally has been to learn on the job, and in the past many have thrived in doing so. However, the changes in the industry mean that newly appointed CEOs and top management must dramatically accelerate their ability to start their jobs at full speed. Growing up exclusively in a single, established route to leadership is less likely to allow future industry leaders to develop the comprehensive management skills required to meet the new challenges.

And it's not just market forces that are demanding greater general management ability. In our work recruiting senior leaders for asset management firms, we find that boards and selection committees are less concerned about historical success and more interested in a forward-looking ability to sustain and evolve a thriving culture, create a vision for competitive growth, and inspire teams to achieve implementation excellence. All of these attributes, while sometimes natural gifts, have become tougher to test and groom on a single battlefield.

Think of a traditional pathway: A promising head of distribution for the Americas region takes on a global lead sales and marketing role. He (or, all too rarely, she[1]) progresses in that role as part of a succession plan for replacing the longtime CEO, with the assumption that he will assume the top role after a few years. When this occurs, the leader will have tremendous sales and marketing skills but now faces a steep learning curve with respect to managing the firm's investment teams and operational/technology engines as well as commanding the dynamics of simultaneously pleasing investors, boards, regulators, and other stakeholders in a rapidly evolving industry. The leader must also design a vision and a growth plan and, in some cases, decide what kind of organizational culture needs to be built to support the new direction — and then do the hard but necessary work of shaping it.

Complications such as these can bewilder a new CEO who is used to more straightforward decisions around product launches or managing a team of fund managers. Indeed, many of the issues leaders in asset management are facing involve decisions that cut across functions and geographies, require a close look at systems and platforms to support execution, and can only truly succeed by keeping people informed and achieving buy-in.

Consider the challenge faced by a "traditional path" CEO who is considering the strategic and organizational implications of a pivot to a more balanced mix of active and passive investing, or is eyeing a complex acquisition or the launch of an exchange traded fund (ETF) through an external partnership. Does this leader have what it takes to explore such critical decisions? It is unlikely that he or she held a strategic corporate development role or played a significant role in pricing out economic models to test viability, not to mention having the necessary network in private equity and investment banking to judiciously explore possible acquisition targets and most effectively leverage an (often complex) array of outside partners. Can the new CEO ask the right questions to identify the operational and legal requirements for onboarding or launching a new product? Having developed a career exclusively in sales, how much experience will he or she have to draw from to begin crafting answers (let alone doing so in a fast-paced competitive environment)? Likely, it's not enough.

[1] For more about women in asset management, see Chris Newlands, "Female fund managers in decline," *Financial Times*, February 1, 2015.

This gap in experience and skills becomes even more problematic when the new leader is thrust into dealing with the inescapable organizational challenges associated with strategic change. For example, it takes an all-encompassing perspective to guide an active equity team through a transition to a more balanced mix of active and passive investments (which the team may very well view as cannibalizing its own products). Not only does today's new CEO need to communicate the complex scenarios that come with such moves, but he or she must also have the diplomatic skills needed to manage the egos of investment teams or franchises affected by the changes. Given the high stakes of these kinds of decisions, it's little surprise that boards, investors, and other stakeholders are demanding that the next generation of leaders be better equipped to tackle difficult strategic problems and achieve growth (for more, see the sidebar, "Leadership styles in asset management").

Leadership styles in asset management

Capturing the essence of how a leader might behave in volatile and uncertain business environments is a tricky proposition. Leaders, after all, exhibit a range of styles, and the most effective leaders are able to adapt their approaches to a broad range of situations. Nonetheless, Heidrick & Struggles' research suggests that leaders tend to have "go-to" styles they gravitate toward when facing new challenges.

To find out more about how asset managers lead, we recently asked 40 US-based CEOs of investment management firms to complete a proprietary assessment tool, *Leadership Signature*®. The assessment, part of a broader empirical research project,[1] identifies a leader's primary leadership style as well as his or her preference and access to seven additional styles identified by our research. A high-level description of the characteristics of each of the styles is as follows:

Collaborator
Empathetic, team builder, talent spotter, coaching-oriented

Energizer
Charismatic, inspiring, connects emotionally, provides meaning

Pilot
Strategic, visionary, embraces complexity, open to input, team-oriented

Provider
Action-oriented, confident in his or her path or methodology, loyal to colleagues, driven to provide for others

Harmonizer
Reliable, quality-driven, execution-focused, creates positive and stable environments, inspires loyalty

Forecaster
Learning-oriented, deeply knowledgeable, visionary, cautious in decision making outside of his or her expertise

Producer
Task-focused, results-oriented, linear thinker, loyal to tradition

Composer
Independent, creative, problem solver, decisive, self-reliant

While the small size of the sample prevents us from drawing definitive conclusions, the results were nonetheless interesting. For instance, we found that

Despite the challenges, some asset management firms are getting smart about how to address the industry's leadership gaps. Other companies can learn from their experiences.

One such firm designed a five-year succession plan for a CEO who knew he would retire from the company after leading it through years of sustained growth. The company identified one specific high-potential internal candidate and put the individual on a leadership development path that was deliberate and well rounded. The individual was a successful portfolio manager in equities known for his industry vision and leadership potential. Following the five-year plan, he was guided through various independent leadership roles as head of product, COO, and equity manager, and he played a significant role as chief marketing officer. He also acted as liaison to the parent company.

three in four CEOs at smaller asset management firms were forecasters.[2] This could be related to the fact that many of these firms are boutiques that focus on a relatively limited range of products (an environment conducive to deeply knowledgeable, learning-oriented owners) and that many such companies indeed have owners/founders who "grew up" as investors.

Meanwhile, the CEOs of the larger, more complex firms (more than $75 billion in assets under management) displayed a much wider diversity of leadership styles, with no clear pattern emerging. What was most interesting about this group, however, was that, relative to the others we surveyed (as well as a random sampling of other executives), these executives were likely to have greater access to more of the styles.

This is intriguing because our experience suggests that having the ability to flex between styles is an advantage that allows leaders to operate more effectively in more complex environments (as the larger asset management firms are, relative to the smaller firms).

Ultimately, though, it's important to recognize that there are no right or wrong leadership styles (as success is predicated on the fit between leadership style and the nature of a particular situation), and our experience suggests that in fact *all* leaders are likely to have access to every style to varying degrees. Nonetheless, the survey results do raise the possibility that some business environments could contain less (or more) diversity of leadership styles than others. This matters because the most effective leaders are able either to access different leadership styles to meet particular challenges[3] or to surround themselves with colleagues who complement their own leadership styles, or some combination of both.

By putting greater emphasis on identifying and understanding how leaders lead, companies can make advances toward balancing team leadership dynamics and aligning leadership styles with organizational objectives. Moreover, by developing an enhanced understanding of how leaders behave and interact, an organization can help them expand their leadership potential.

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[1] For more about the research, see "What's your leadership signature?" on heidrick.com.
[2] Asset managers with less than $25 billion in assets under management.
[3] Our research is consistent with other studies on the topic that also find that the ability to use several styles is an advantage. For example, see Daniel Goleman, "Leadership That Gets Results," *Harvard Business Review*, March–April 2000.

The combination of these experiences enhanced the executive's ability to both see the bigger picture and leverage the organization to get things done. It also considerably strengthened his relationship with the board. Consequently, at the end of the five years he was viewed within the company as the obvious choice for CEO, having proven to be well equipped to face a variety of challenges and turn them into results. Notably, this leader has since developed a plan to bring on an ETF platform alongside the existing active equity teams with minimal disruption. Leveraging his experience in product development and his understanding of the importance of collaboration, he formed an ETF committee to explore implementation of the new platform and included members of the active equity team, marketing, sales, operations, and the oversight committee. He was able to use the experience he acquired in the company's high-potential development program to significantly alter the company's product lineup, managing the change with far less disruption and cost than a less broad-based CEO could have accomplished. He has also set a precedent of inclusion and engagement, leading to the beginnings of a new, more forward-looking culture — and the next generation of high-potential, "cross-trained" leaders.

This case points to a better way to view succession planning in the industry. It is clear that the company did a number of things right, including taking a long-term view and designing a cross-training experience that expanded the individual's natural leadership talents. The company was also public and transparent about the plan — an approach that comforted the relevant stakeholders.

For asset management companies looking to strengthen their ability to develop leaders (including a more diverse pool of leaders), it's best to begin by understanding the basics of a broad-based succession planning program, starting small and then fine-tuning as the company evolves. First, though, asset managers must recognize that succession planning is not a one-off exercise but an ongoing process. All situations are unique, but there a number of approaches that provide a foundation for creating excellent succession outcomes. Many of these lessons will be familiar outside the asset management industry, and in fact savvy asset managers should look outside their own walls to gauge the impact that best practices developed elsewhere could have in their organizations.

- Conduct a wide review of talent across all areas, identifying candidates who both are ambitious and show potential. Use a mix of data, including performance reviews, psychometric testing, and internal reputation. The often-overlooked general counsel (GC), for instance, might be a candidate. While historically regarded as the "police" rather than an innovator, the GC increasingly plays a role in contributing to a growth strategy through the lens of regulatory oversight. A GC who has been cross-trained in a COO role and who carries a natural business instinct might be an unexpected, yet uniquely well-suited, leader.

- Assess distribution, investment, and operational leadership for performance. Identify skill and leadership gaps and develop plans for addressing them through coaching, cross-training, geographic rotations, or special project challenges to make each leader more "go ready" for the top management spots. For example, a company could encourage a high-potential candidate to play a significant role in developing the organization's marketing materials. This can help an up-and-coming leader to step outside the process temporarily and think about the commercial implications that marketing may have in the battle for asset gathering. Such approaches also allow leaders to flex intellectual business muscles that might have gone dormant.

- Tie the leadership succession plan to succession planning for other functional and divisional positions. For example, the transition plans mapped out for the CIO, the head of distribution, and the head of technology and operations should be synced with the CEO/president succession plan.

- Design a concurrent plan to identify one or more leaders from outside the company who are known to the board and who might be "recruitable" in a relatively short period. Those individuals should be contacted and connected to an internal stakeholder to ensure a strong relationship and regular communication.
  Pay attention to identifying leaders beyond competitive and similar-sized organizations. The "usual suspects" may not be the right answer to leading your firm toward its short- and medium-term goals. It might be a less visible leader who carries a passionate vision yet lacks the platform to express it — the kind of leader who might be able to jolt your company into the next phase of competitiveness. Another useful technique involves building a strong relationship with the leadership talent at a boutique firm that might also be an acquisition target.

- Conduct an annual review of the succession plan to ensure your identified candidates are on track for success. If you do not seek regular updates, incorrect assumptions can take over and misunderstandings can derail great work already put into the plan. A notable benefit of annually reviewing leadership succession plans is the ability to constantly match the firm's short- and long-term vision with the skills of future leaders.

- In asset management, it can sometimes be too easy to commend candidates who are on "autopilot" — meaning, for example, that if investments are doing well, it is assumed that the CIO is doing well; if assets are being raised, it is assumed that the head of sales is on track. Those successes may be indications that people are achieving their goals, but they do not necessarily signify that the managers are actually developing the abilities they'll need in a planned succession. Their success might just be a function of being in the right place at the right time. An effective succession planning program needs to be able to assess many more things than just meeting business objectives. Will the firm's up-and-coming leaders be able to influence company culture? Can they energize high performers? Will they know how to retain the best employees?

Every asset manager has his or her own narrative, history, and unique place in the market. There is no "one size fits all" when it comes to ensuring smooth leadership change, but by adopting succession plan practices used in other industries, asset managers can create a more agile, strategic, and capable generation of leaders. They will be leaders who are able to deal with the unexpected forces that will no doubt continue to affect the industry. They will be leaders who will ensure that the industry continues to excel at leading management of the world's investments. ■

About the author

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Financial Services Practice

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