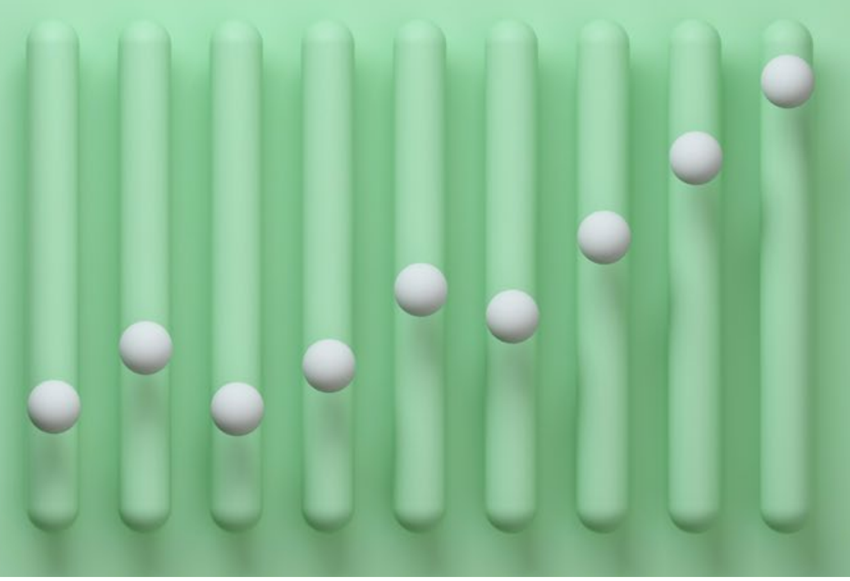
SpencerStuart

Under Pressure

The future of asset management leadership



At a glance

- Asset managers are undergoing a period of intense change, putting new pressures on firms and placing new requirements on leaders.
- Our research shows that most CEOs are industry insiders and mostly from an investment background.
- The majority of externally appointed CEOs are likely to be investment bankers, with insurance, private equity and management consulting executives making up the balance. Diversity among CEOs remains scarce; just 12% of the CEOs of the world's 200 largest asset managers are women.
- There is increasing scepticism as to whether the traditional approach to hiring CEOs will produce leaders capable of tackling the industry's emerging challenges.
- A strong consensus emerged about the skillset and capabilities required from this next generation of leaders, namely: cost management, M&A and integration, understanding of technology, tied together by authentic, purpose-driven leadership.
- This poses several challenges. Firms will need to reconsider how they recruit and develop talent, rethinking developmental pathways for current succession candidates and casting the net wider when looking at external talent. Executives keen to secure a CEO role will need to consider how they might round out their skillset in a sector that has traditionally operated in siloes.

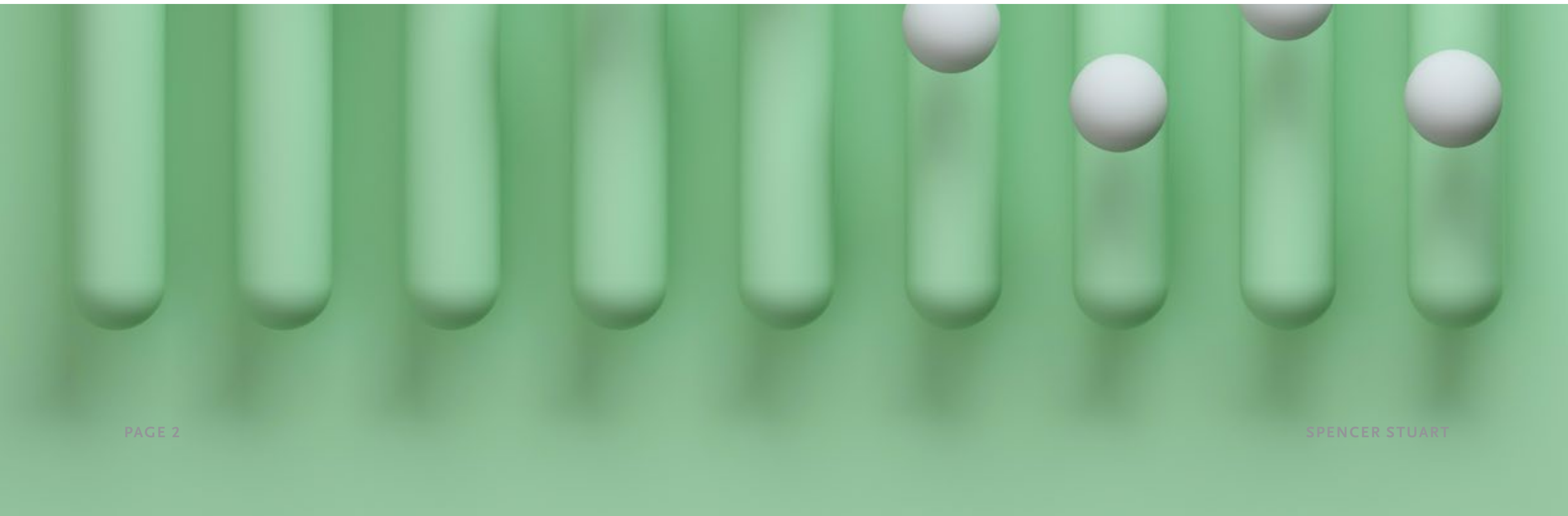
Challenges and changes

The challenges faced by asset managers are well-trailed. They include making their offerings more relevant and accessible in a digital world — one with an increasingly intense focus on the environmental, social and governance (ESG) credentials of those charged with managing its wealth. Then there is the rising cost of meeting regulatory and compliance obligations; the competition posed to active managers by passive and other low-cost providers; and the need to make meaningful strides towards rectifying the industry's lacklustre diversity and inclusion credentials.

Investment managers have responded by accelerating the pace of new product launches, rethinking distribution, and seeking to put ESG at the centre of their business models. In the context of these unfolding changes, our intuition has been that asset managers will need to think in a far more strategic way about how they run their businesses. Faced with a set of challenges affecting the financial services sector more broadly, they may need to draw on strategies developed, and lessons learned, outside the somewhat rarefied world of asset management.

To meet these challenges, then, the CEOs of tomorrow will need to be outstanding strategists as well as great leaders. The question we have posed is this: will the skills and backgrounds needed to lead and grow asset managers in the future be the same as those found in today's CEOs? Or will entirely new ways of thinking, and different expertise, be required?

To address these questions, Spencer Stuart analysed the backgrounds, experiences, and career trajectories of the CEOs of 200 of the world's largest investment managers, to understand what the typical path to the corner office looks like in 2022. We then conducted a series of in-depth interviews with the chairs and CEOs of a broad range of asset managers, asking their perspectives on the skills and experiences which best equip the leadership of their firms for success today — and how these skills and experiences may be set to change. We asked which leadership qualities will be essential for CEOs to flourish in the future — and what questions should boards and nominations committees be asking themselves when they come to plan for leadership succession.



The current route to the top

Our research suggests that the typical nominations committee in recent years has shown a strong preference for candidates with a background in asset management — and that given a choice, they'd rather hire a former investor to run the firm. Sixty percent of the CEOs running the 200 global asset managers in our sample have spent at least some of their recent careers within the asset management industry. Of those, around half had been investors, while a perhaps lower-than-expected 16% of the 200 rose through the ranks of distribution (11%) or product (5%). This is almost the same as the proportion of CEOs whose route to the top was through finance (8%) and operations (7%).

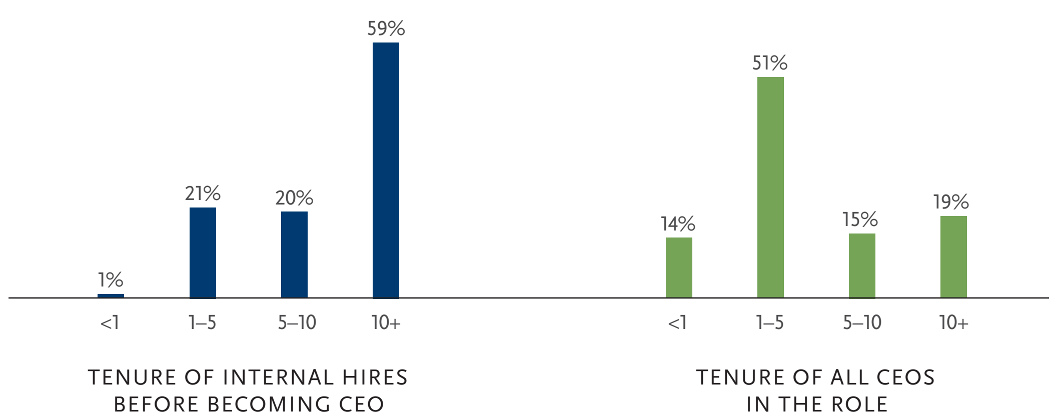
Insiders preferred

Our analysis suggests that, in the view of our fictional typical nominations committee, the best possible training to become CEO of an asset manager has been a career in the firm itself. A full two-thirds of the current class of CEOs were promoted internally into their current role. Nor were these CEOs hired as successors-in-waiting: nearly 60% of them had spent over a decade in their firm before being promoted to the top job.

67%

of CEOs are internal hires

CEO TENURE (YEARS)

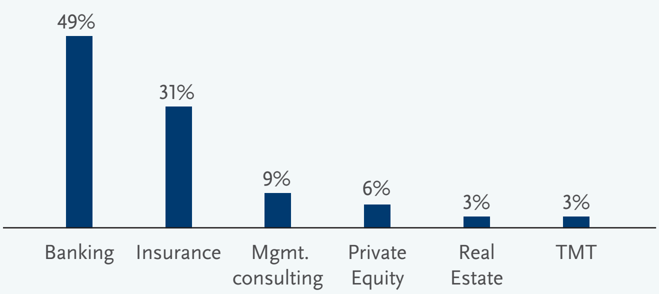


Hiring from outside the industry

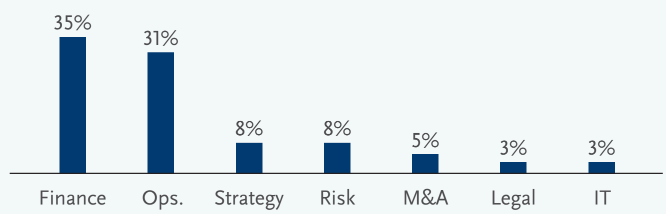
Thirty-seven percent of asset management CEOs in our sample had not previously worked in the asset management sector. Perhaps surprisingly, given the view often heard in the industry that career bankers rarely make great chief executives of asset managers, banking is by far the most popular background amongst this group, accounting for nearly one-half of the total. It is followed at a distance by insurance, management consultancy, private equity and real estate (see chart).

Our research suggests that when boards take the decision to hire a new CEO with a functional background, they are more likely to choose a former CFO than someone whose background lies in areas such as strategy or operations. And when this hire comes from outside the asset management industry, hiring a former CFO is a very strong preference — perhaps for reasons connected with the need to manage costs more effectively.

SECTOR BACKGROUNDS OF CEOS HIRED FROM OUTSIDE ASSET MANAGEMENT

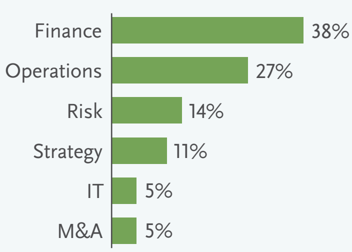


FUNCTIONAL EXPERIENCE — ALL CEOS (EXCLUDING INVESTMENT ROLES)

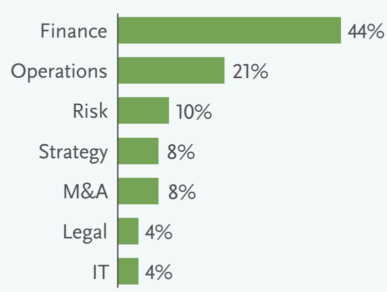


CEO FUNCTIONAL EXPERIENCE BREAKDOWN

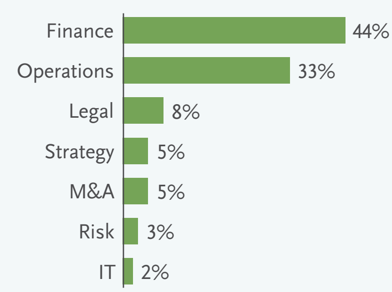
WITH SECTOR EXPERIENCE



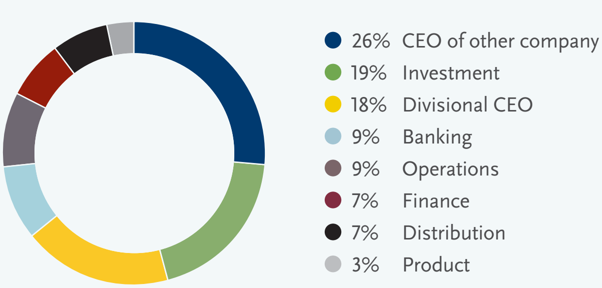
INTERNALLY HIRED



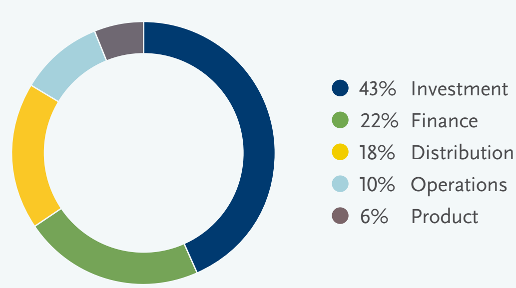
FROM OUTSIDE THE SECTOR



ROLES HELD IMMEDIATELY PRIOR TO CEO APPOINTMENT



BACKGROUNDS OF FIRST-TIME CEOS



Asset management CEO of the future

As we have seen, the typical CEO of a global asset manager stands a good chance of being a former investor who worked at the firm for at least a decade before being appointed to the top job. As investment managers confront what are arguably the most complex set of challenges in the history of their industry, it is worth reflecting on whether the traditional ‘routes to the top’ equip the CEOs of tomorrow to tackle these often non-traditional challenges. If they do not boards and nominations committees may increasingly find that the CEO succession process needs to address fundamentally different candidate pools in future.

In our discussions with chairs and CEOs, the theme of the cost pressures on the industry is a constant. Margins at investment managers are shrinking at a time when operating and regulatory costs are soaring and pressure on fees is intense. Part of this fee pressure comes from passive providers in the US, who overtook their active equivalents’ share of net assets under management (AUM) in 2019[1]. Part comes from the global titans, whose economies of scale give them significant competitive advantage.

In the face of this challenge, the chair of one asset manager noted that cost management experience has become a prerequisite for senior leaders. “The active side of the business is under pressure and the cost management piece will become ever more important over the next decade. That said, firms do need to avoid falling into the trap of suffering from spiralling costs, then cutting costs only to lose clients, before being forced to rein in costs still further,” he said. Another agreed, adding that “fee pressure has been largely hidden by strong markets lifting AUM. It is unlikely markets will be as benign over the next five years. CEOs will need a firm understanding of the bottom line, be capable of making tough financial choices and decisions on where resources are allocated.”

> **It is unlikely markets will be as benign over the next five years. CEOs will need a firm understanding of the bottom line, be capable of making tough financial choices and decisions on where resources are allocated.**

While some firms have chosen to slash costs, others are resorting to consolidation to obtain economies of scale — M&A transactions involving boutique managers are now at levels unseen since 2007[2]. Yet few of the asset management leaders we interviewed were convinced by the merits of consolidation, pointing to a history of poorly-executed M&A in the sector. As one commented: “While scale is relevant to the industry, asset management is a people business and mergers may not easily work out. While firms can take smaller risks by bolting on boutique asset managers, it is common that people leave once their lock-ups expire”.

1 Reuters [February 18, 2020] Massive passive funds squeeze stock pickers
2 Financial Times [September 13, 2021] Hunt for small asset management deals hottest since 2007

Another CEO agreed, adding: "a merger of two large firms often leads to implosions for cultural reasons. Acquisitions need to be considered but they are risky. The best ones — such as the BGI and BlackRock merger — worked well because the two businesses complemented each other".

Irrespective of the virtues of M&A, the consensus amongst the chairs and CEOs to whom we spoke is that experience in M&A and integrating businesses will be critical for CEOs over the next few years.

> **"The asset management industry is slow moving. Executing strategic change can be testing."**

Mission-oriented and tech savvy?

Interviewees were united in the view that the next-generation CEO will need to be capable of providing purpose-driven leadership in a climate of accelerated innovation — seeing today's industry stampede towards launching ESG-branded funds and private markets capabilities as the thin end of the wedge. "They will need a much quicker and more prescient grasp of the structural shifts affecting our industry and will have to have to be able to develop the right strategic vision to react to them," said one interviewee. Another added a word of caution: "The asset management industry is slow moving. Executing strategic change can be testing."

Our interviewees were also united in the view that the next-generation CEO of the future will need significantly more familiarity with disruptive technologies. At the less complex end, this reflects changes in distribution models and investor demographics. However, it also embraces areas such as artificial intelligence, which could potentially reshape the funds business — especially in activities such as distribution and operations. As one chair remarked: "In distribution, it is about using technology to provide better understanding and to get closer to the customer." In areas such as risk and compliance, the chair believed automation would be instrumental in reducing headcount and costs. But for all the advances being made in fintech and innovation, the chair stressed that CEOs "don't themselves need to be technologists. But they need to understand how to apply technology so that a dialogue can be had."

Visionary leaders, not gifted investors?

In this environment, how should the industry be thinking about talent, and what can aspirant CEOs do to prepare themselves for the challenges ahead? Our research suggests that chairs are already rethinking the types of backgrounds to which they have historically turned when looking for CEOs in the past.

One chair anticipated that the number of CEOs with pure investment backgrounds would decline in the next few years. "I think it is less likely you will have CEOs coming from investment backgrounds — although it will not disappear entirely. It is critical CEOs are able to handle a large organisation, and managing money isn't necessarily a qualification for doing this." Commented another: "The days of the brilliant investor with an edgy personality running an asset management business are over — except perhaps at a boutique".

> **"The days of the brilliant investor with an edgy personality running an asset management business are over — except perhaps at a boutique"**

> **"...you have investments, distribution and the operations. The CEO's role was to be the ringleader who makes a concentric picture out of those three circles. Today, that's not enough to ensure that the business will survive, let alone prosper."**

These thoughts are broadly echoed by a third chair in our sample: "Investment people are strong technically, but they have trouble — in my experience — making the transition to more strategic roles, where they are able to see the big picture. Even from a communications standpoint, investors like to prove how smart they are, that they understand every detail. But if you are talking to shareholders or employees, they don't need to hear every detail. They want the big picture."

Notes another: "While we used to think having an investment background is invaluable, the question today is whether you can make the transition to a strategic role that looks at the business more broadly and can communicate effectively to those outside the investment arena".

A number observed that the role of CEO in an asset manager has become significantly more multi-dimensional in terms of the mix of experience and expertise required to fulfil it. One CEO pointed out that the role of CEO today is much more complex than it was previously. "I used to think of asset management as the three-ring circus — you have investments, distribution and the operations. The CEO's role was to be the ringleader who makes a concentric picture out of those three circles. Today, that's not enough to ensure that the business will survive, let alone prosper."

Many chairs agree that identifying candidates with such diverse expertise is not always straightforward in the funds industry. "My strong preference would be to hire a CEO who has a broad background within the asset management business," said one chairman. "But the industry has done a terrible job of providing people with a really broad training. They tend to grow up in silos, spending their entire career in sales or investment or operations."

> **... the industry has done a terrible job of providing people with a really broad training. They tend to grow up in silos."**

Yet historically there has been a reluctance to hire CEOs from outside the asset management industry. As one chairman remarked, hiring outsiders — particularly in a culture-driven business like asset management — has always been seen as high risk.

One CEO commented that coming into the industry from a sector such as banking is innately challenging: "Asset management is not a capital-intensive business like banking. In some respects, managing balance sheet capital is less difficult than trying to serve a third-party client base. When you are managing a balance sheet, you have one client — the asset owner, meaning the company you work for. I have several hundred clients and I have to worry about keeping each of them happy."

Breaking with tradition

It seems likely from our conversations that chairs and nominations committees are becoming increasingly sceptical about whether the traditional CEO hiring formula will deliver CEOs with the skills needed to enable their businesses to thrive. Improved developmental pathways for aspiring CEOs on their route to the top will help bridge some of the gap. Nominations committees will also have to turn more often than in the past to talent nurtured outside the confines of the asset management sector in order to find the leadership they need.

Discovering and developing your next CEO

What do the challenges faced by asset managers mean for discovering and developing the next leaders of the industry?

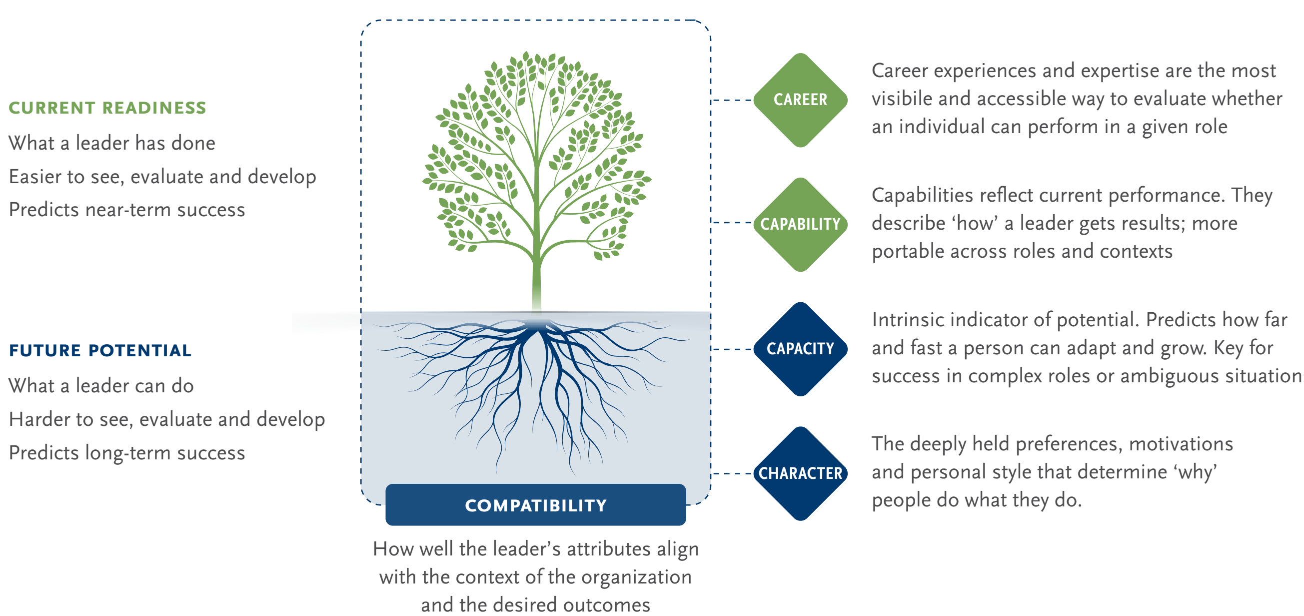
The successful CEOs of tomorrow will arise when we begin to recognize two critical realities. The first should come easy as it's an industry axiom — past performance is not indicative of future success. Too often, critical leadership decisions are informed by legacy views of leadership, and the requirements placed on leaders today are not the same as in the past. The second reality is something that boards in all industries are beginning to appreciate — we overvalue an executive's past career profile and undervalue their future potential at our own risk.

Our view of leadership is to focus on what's "above and below the surface" of the individual leader. An effective leader has the necessary career profile, capability, capacity and character to succeed and is compatible with the context of the organization and environment. We call these attributes the "Five Cs" of a leader. What does this mean for boards looking for their next leader? Or for aspiring leaders in the industry?

What's "above the surface": Career and Capability

These are the elements that tell us what a leader has done. They're easier to see, evaluate, and develop, and predict near-term success. The industry may very well still look for an investor to run the firm — but meaningful experience outside the industry and technology savvy round out a career profile. From a capability perspective, what do we mean when we say we need strategic acumen? While in the past it was sufficient for CEOs to address and exploit trends in the external landscape of competitors and clients, now they must exhibit the ability to take it to the next level, think ahead over a longer-term horizon, bring new thinking that challenges assumptions and conventional wisdom, and align the new direction with modes of operation across the firm. Not all strategic acumen is the same.

OUR VIEW OF LEADERSHIP



What's "below the surface": Capacity, Character, Compatibility

These are the elements that tell us what a leader can do. They are harder to see, evaluate, and develop. But they predict long-term success, so we ignore them at our own risk. How should a board choose a new CEO from two high-performing leaders who have never led a firm? Which of them are ready to take the leap? And if one has led a firm, will they be successful in a new context?

A critical element of capacity is conceptual thinking — the ability to see the big picture and the forest from the trees. While a great investor needs to be knee-deep in the details, a CEO has to think and act at another level — balancing growth with costs, considering the impact of decisions on multiple stakeholders, and communicating a compelling purpose-driven vision that clarifies the firm's long-term mission and social impact — beyond the obvious short-term financial goals.. Additionally, from a character perspective, an innate drive to learn, and openness to innovation and change, will form the foundation of the future CEO's ability to act strategically and build a learning-oriented and inclusive culture.

Finally, consider compatibility — where is your firm in its life cycle? Do you need a leader to professionalize governance after the founder's initial growth? Or break down siloes that may have formed after a generation or two? These unique situations require distinct leaders with unique capabilities and the capacity to meet the moment.

• • •

Gone are the more straight-forward days when the internal successor process was clear, when we could rely mostly on experiences on a CV, or simply recruit the competitor from across the street. Developing and selecting your next CEO requires a new formula.

3 questions for boards of directors to consider:

1. Beyond ensuring that the investment, distribution and operations perform optimally, how are we addressing the great changes facing the industry?

2. Does our firm's culture help or hinder us in achieving our strategic objectives?

3. How are we ensuring our potential successors are ready for the challenges ahead?

SpencerStuart

Authors

Fred Cooke (London), **Nicholas Furze** (Hong Kong), **Chris Hart** (London), **Levi Segal** (Stamford), **Robin Soren** (New York)

The authors would like to thank Raghav Wasan for his contributions to this report.

About Spencer Stuart

At Spencer Stuart, we know how much leadership matters. We are trusted by organizations around the world to help them make the senior-level leadership decisions that have a lasting impact on their enterprises. Through our executive search, board and leadership advisory services, we help build and enhance high-performing teams for select clients ranging from major multinationals to emerging companies to nonprofit institutions.

Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 70 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.