

conversations on leadership

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# Cultivating Transformational Leaders

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*Preparing for the Coming Disruption in Asset Management*

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In a world characterized by rapid change and increasing levels of complexity and uncertainty, asset management companies see new threats of disruption on the horizon. Many are already rethinking their business models and reconfiguring their organizations. To ensure their long-term success, however, they will need to go even further – and cultivate leaders who can master complexity, unleash innovation, and mobilize teams for transformation.

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This insight was clearly demonstrated during Egon Zehnder's ninth annual global asset management roadshow. The leaders of our Asset Management Practice met with more than 50 of the industry's most senior executives, including CEOs, CIOs, distribution leaders, and heads of HR, in a tour that took them to Singapore, Hong Kong, New York, Boston, Philadelphia, London, Paris, Melbourne, and Sydney.

The asset management leaders we spoke to expressed concern about several threats to the industry. On the one hand, they saw the global business and investment environment becoming increasingly complex and challenging. Economic growth is slowing in several regions, potentially compounded by a rise in isolationist politics and ongoing security threats. The asset management industry is also facing new levels of regulatory scrutiny. Even in Asia-Pacific, where the industry has experienced rapid growth in recent years, the leaders we spoke to reported a deceleration in investment.

At the same time, incumbent asset managers are facing rising competition both from disruptive new entrants and from established players in adjacent fields, including some of the largest digital organizations. These new competitors have access to capital on a large scale, are aggressively driving down costs and fees, and are harnessing technology to create seamless customer interfaces. In some markets and sectors, they are already starting to take business from traditional asset and wealth managers.

### Asset managers are driving change on multiple fronts

These developments are putting pressure on even the most successful asset managers. Several of the firms we spoke to said they were reviewing their compensation and incentive structures and trimming down their teams. But asset managers are certainly not sitting back and waiting to be disrupted. Many of them are taking active steps to turn disruptions into opportunities.

For example, most players are investing heavily in digital technologies, including big data capabilities and mobile app-based customer interfaces. Some firms are increasing their focus on passive strategies in response to demand from asset owners. Several are driving cost-reduction efforts, including outsourcing their back offices, while others are building economies of scale through M&A.

We also see the boundaries between sectors dissolving. On the retail side, there is a convergence underway between asset and wealth management. There is also increasing crossover between asset management and insurance: insurance-owned managers continue to expand, and several large asset managers are targeting the insurance market.

In the talent arena, asset managers are driving equally significant changes, including:

- **Upgrading functional capabilities.** Many of the firms we spoke to are seeking to upgrade areas such as compliance, risk, and technology platforms – with cyber-security capabilities being one key focus. They are also strengthening marketing, strategy, and product management capabilities.

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- **Moving aggressively in the talent market.** Despite the challenging market conditions discussed above, many asset management firms are still pursuing bold talent strategies. They are seeking to bring new diversity and adaptability to their talent bench, both to raise their performance and to take on disrupters at their own game.
- **Broadening and strengthening leadership.** Faced with a more complex operating environment, asset managers are investing in developing leaders and bringing greater diversity of outlook, experience, and expertise to their top teams. Whereas leadership development was at the periphery of most firms' human capital strategies just 2-3 years ago, it is now center stage.

## Looking ahead, a broader leadership transformation is needed

Despite these steps, there is still a long way to go in advancing asset managers' talent and leadership agenda. The changing environment makes today's talent requirements very different from those of the past, and many players acknowledge that people development has not been a strength in the industry. They also agree that today's uncertainty creates demand for a new kind of asset management leadership – and a new generation of leaders.

In our view, asset management firms can do more to boost the diversity of their talent and leadership – both to accelerate innovation and strengthen performance, and to serve an increasingly diverse client base. For example, women currently manage only 10 percent of US mutual funds' assets under management (AUM) and 3 percent of hedge funds' AUM.<sup>1</sup>

All this suggests that a new lens is needed to find the right talent: in a world characterized by rapid change, future leaders must be identified on the basis not just of their experience but also of their future potential. Previous research by our Egon Zehnder colleagues defines potential as the ability to adapt to ever-changing environments and grow into challenging new roles. Companies can assess current and prospective managers on four key indicators of potential: curiosity, insight, engagement, and determination.<sup>2</sup>

Leaders must also be ready to steer far-reaching transformation in their business. Arguably this is more difficult at a time when asset management companies are generally doing well, and the threat of disruption is more “down the line” than immediate. In this context, leaders need to take a long view and engage in bold thinking about what will create lasting competitive advantage for their firms.

In helping companies cultivate such “transformational leadership”, we use a five-part model to spotlight strengths they can build on and gaps they need to address. The five dimensions are:

- **Mastering complexity** – the ability to sift and integrate the multiple factors influencing the company's success, and see through the “noise” to distill real insight and set clear direction

1. As cited in Beardsley, Stefanova and Teten, “Who Will Disrupt Asset Management, and How”, April 2016

2. See Claudio Fernández-Aráoz, “21st-Century Talent Spotting”, Harvard Business Review, June 2014

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- **Orchestrating creativity** – the capacity to instill a mindset and a framework for action that enables the organization to generate – and implement—truly innovative ideas
- **Growing emotional commitment** – the ability to create a compelling “call for action” imbued with higher meaning and strong emotional content, so building organizational commitment far beyond “programs and processes”
- **Anchoring in society** – the ability to connect the company’s business purpose to a long-term mandate of creating social value, and to align the organization’s activities and communication with that purpose
- **Building next-level leadership** – the capacity to energize and develop the next generation of leaders, using innovative models for collective action

Asset managers do not face a crisis, but the model that has served them so well needs to evolve. There are challenges and disruptions on the horizon, and companies must be ready not just to meet them but to see beyond the horizon to what’s next. To do so, they will need to cultivate leaders who are more proactive, adaptive, and innovative than ever before – and who can mobilize organizations not just to change, but to transform.

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