Like him or loathe him, you have to admit that New York Attorney General Eliot Spitzer has been one of the biggest catalysts for change in the asset management industry. Spitzer’s campaign (some would say, “witch hunt”) to expose and punish errant mutual and portfolio managers has uncovered a weakness in the leadership within the industry. Ironically, Spitzer’s efforts, and the related efforts of the SEC and other regulators, have caused many asset management firms to shift their focus to what they now regard as one of the industry’s highest priorities: finding and developing leaders who can restore investors’ and regulators’ confidence in the asset management industry, and help asset management firms compete effectively in a brave new world of shaken investors, greater SEC scrutiny, crusading prosecutors, and a growing number of laws and regulations governing how the industry can operate.

To understand how the recent mutual fund scandal has affected the industry, we interviewed a number of asset management firm executives and asked what their firms were doing in response to changes they have seen in the marketplace and to the allegations, dismissals, and fundamental soul-searching that has rocked the industry in the past year. Among the most important themes emerging from our study, was the importance of developing more effective leadership in the industry.

Halcyon Days Gone By
To understand the need for better leadership, we have to appreciate what this industry has been for the past two decades. Most importantly in the context of the current scandal is that the asset management industry has had the image, internally and externally, of scrupulous honesty. While scandal rocked other types of financial services organizations and companies, the mutual fund industry sent a fairly sanctimonious message: “We are honest and have always been so.” Furthermore, in the effervescent economy of the 1990s, it was nearly impossible to do anything wrong. Many of the key executives we interviewed told us that the 18-year bull market created the dynamic of a rising tide lifting all boats, which
reduced the premium for excellence in leadership and management.”

Much of the hubris in the industry came from unbridled—and sometimes undeserved—success. In the roaring 90s, all decisions were easy because the bull market covered a multitude of sins. In the more tepid markets of today, firms and their portfolio managers and leaders have to be much more careful—and much smarter. It used to be that all assets were good assets; now there are good assets and bad assets. Success used to be about who could come up with the best ideas and get there first—or who could copy those best ideas fastest and most effectively. Business was one-dimensional; now it's multi-dimensional. In this more competitive, more complex environment, asset management firms have to be smarter about investment choices, managing the firm’s costs, and keeping an increasingly wary group of investors satisfied. Being successful today requires much more business acumen than it used to.

Bridget Macaskill, former CEO of Oppenheimer Funds, believes that the industry lacked good leadership and management skills before the scandals. It’s anyone’s guess whether better leadership would have prevented the widespread abuses being investigated today, but there is little doubt that better leadership is needed now to help restore trust. The fundamental problem, according to Macaskill is a lack of client focus.

“There has not been profound belief in doing what is right for the client,” she told us. “The industry grew out of a Wall Street culture where you manufactured a product and sold it to the client, instead of finding out what the client wanted and then creating a product to meet the client’s need. The mentality tended to be one of, ‘We know best what you need.’ And, if you don’t have a client-focused culture, you don’t have a profound belief in doing what is right for clients, so it’s easier to take steps that are not in the client’s best interests. This has always been a high-margin business, so there was little impetus to analyze profitability, so there has been poor cost and expense control. When the downturn came, companies woke up and realized they needed to be smarter about profitability.”

John Fraser, CEO of UBS Asset Management, agrees that the 1990s were a strange time in asset management. “We are all children of our experience,” he told us. “In the ’90s, you could get away with a lot. In some respects, you could put your sails up and

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1 Interview with Bridget Macaskill, 2004. Quotations used with permission.
just go. There was a lack of humility.” In that effervescent climate, costs went through the roof, especially between 1998 and 2000, and most firms lacked leaders who could see beyond the bull-market glow. Fraser said, “Now the industry has changed, and what is needed most is leadership. Now you have to run the business like a business, and you have to understand the importance of humility, integrity, and the inherit limits of human beings and our expertise.”

The Leadership Traits that Have Always Been Needed—and Are in Short Supply
Of course in many respects, the leadership traits and skills needed in the asset management industry are similar to those needed to run any large team or organization: a sense of purpose, a vision and an ability to inspire others to embrace that vision, the ability to communicate one-on-one and in groups, the ability to build teams and gain cooperation from people with diverse interests and motivations, and the courage to make tough choices and take risks. However, because of the unique nature of asset management firms, what makes asset management leaders effective, first of all, is the desire to lead.

This is an industry where, historically, no one wanted to be the leader. Leadership hasn't been rewarded or valued. The best people were often more motivated to be a salesperson or a portfolio manager, where the rewards were greater and more predictable and where, frankly, there was more energy and psychic satisfaction. To many talented people, shaping a business has been far less interesting and rewarding than shaping a portfolio. Furthermore, many people are attracted to asset management because it is analytical and rational rather than interpersonal and emotional. Some people who might otherwise make good leaders simply don’t like the messy challenges of dealing with people issues and problems.

It might be easier to find people who have a strong desire to lead from outside the asset management industry, but having a background in asset management is also important. Because of the fiduciary and open-ended nature of the business, as well as the culture that exists in asset management firms, leaders need to have grown up in the industry to be successful. Obviously, some “transplants” do succeed, but they often have difficult transitions and a long learning curve. Bob Doll, president of Merrill Lynch Investment Managers, argues that unless you grow up in the business you won’t have enough insight into what works and what

2 Interview with John Fraser, 2004. Quotations used with permission.
doesn’t. Asset management cultures and business environments are easy to describe, but you can’t really “feel” it until you live it.¹

Asset management leaders also have to be strategic and tactical in their orientation. It is essential that they see the big picture, that they are able to recognize the trends and patterns in investment management activity, and that they can grasp the dynamic changes in both the competitive landscape of the industry as well as the shifting needs and priorities of investors. Because this big picture is not always crisp and clear, effective leaders must also be able to see the gray areas and be comfortable with ambiguity—and ambiguity is a messy concept in asset management. If they could, portfolio managers would always make highly rational decisions based on perfect information, which is never available. But as fuzzy as a portfolio manager’s world might be, it gets even fuzzier for leaders of asset management firms. So having a strategic orientation is crucial. But leaders must also be tactical enough to appreciate the impact of their decisions on the day-to-day decisions being made in their firms. Arguably, one of the reasons why some asset management CEOs have lost their jobs recently is that they were not sufficiently tactical and were not paying enough attention to the details.

Both Bob Doll and Ted Truscott, Chief Investment Officer for American Express Financial Advisors,⁴ told us that the will to win has traditionally been a key trait of effective asset management leaders. They must want to build something great, to bring people together in a common cause and motivate them to achieve something that, individually and apart, they would not be able to achieve otherwise. The best asset management leaders are very competitive; they are driven by the need to be the best, the most creative, the most successful at leading teams or firms that achieve the best returns for investors and shareholders. Of course, effective leaders of all kinds have a passion for the business, a passion for the organization, and a passion for the stakeholders, including the owners or investors and the employees. What distinguishes great asset management leaders is that they are personally committed to the success of the enterprise in every respect, not just financially. They have a passion to create greatness in the form of business success by leading like-minded people in a shared cause. So they must be competitive and driven but also collaborative and inspirational.

They must also be able to manage smart people who don’t want to be managed, which means that while these leaders must have high aspirations, they must also have manageable egos. In some cases, they will be managing people who are smarter than they are, and that has to be okay with them. They have to sublimate their own egos for the sake of the team and the enterprise. Like other professional services firms, asset management firms seek to hire very smart people, and these people are often independent, self-motivated, opinionated, and self-assured. In the worst cases, they may also be arrogant, stubborn, and resistant to direction or coaching. So asset management leaders must be able to work with strong egos and independent personalities.

Ted Truscott feels strongly that managing smart people is one of the most important skills of asset management leaders. Such leaders have to be willing to debate, Truscott told us, see all sides of an issue or decision, and be able to tolerate dissent. Further, they must have the desire to nurture people, including some who may be difficult, and to handle people-related issues and problems. To build good teams, they have to be able to attract and retain good people and to convince them to remain over long enough periods. The challenge is to build mature, savvy asset management professionals, which takes some longevity in the profession and the firm. So effective leaders must be able to work with bright, young professionals who are eager, competitive, and independent.

The issue of intelligence is an interesting one because the most effective asset management leaders must also recognize that they don’t know everything and, further, that it’s okay not to know everything, which is very difficult for portfolio managers who rise to leadership roles. In their transformation to leadership positions, they have to sublimate their egos and accept the inherent limitations on the knowledge available to them when they make leadership and management decisions. A number of studies of leadership note that leaders must have a “tolerance for ambiguity,” that the world in which they must make leadership decisions is not black-and-white.

Not everything can be known. People who are used to managing in situations of near-perfect information are often frustrated when ambiguity grows and they must rely increasingly on their intuition. Jim McCaughan, president of Principal Global Investors, observed that a key issue is the irreversibility of a leader’s decisions. Portfolio managers have the flexibility of reversing their decisions if those decisions prove to be wrong, but leaders do not have that

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5 Interview with Jim McCaughan, 2004.
luxury. When portfolio managers are promoted into broader leadership roles, they are often surprised and frustrated by the sudden irreversibility of their decisions—and compounding their frustration is that they must make those decisions in an atmosphere of ambiguity and incomplete information.

Finally, communication skills are crucial for leaders in asset management, especially listening skills. Of course, good communication skills are essential for leaders of any kind in any type of organization, but it’s worth noting that in asset management good listening skills are not necessarily cultivated in the crop of professionals who can emerge into leadership roles later in their careers. On the contrary, among new hires and young professionals, the premium is placed on developing expertise or knowledge and on being smart, aggressive, and creative. Those who have good, native communication skills may rise to the top as part of the process of natural selection, so to speak, but the best emerging leaders may not naturally be good listeners, so this skill may need to be developed in them as they mature as young professionals in the field.

Good listening skill requires a transformation from being primarily a “transmitter” to being primarily a “receiver.” People in the transmitting mode are usually smart, knowledgeable experts who are sharing their knowledge or views with others. They tend to adopt an “I know it and you don’t” attitude and view communication as principally an act of conveying what they know to people who will benefit from their knowledge or opinions.

People in the receiving mode, on the other hand, view their role as taking in or absorbing information and then deciding how to synthesize it or act on it. They seek information from others and try to receive that information in an “unfiltered” way, which means that they don’t bias what they hear with their own opinions too quickly. In other words, they don’t view dialogues with others as a reason for debate, so they don’t impose their own opinions or perspectives while others are speaking. Effective leaders are primarily receivers. They transmit when necessary, usually when they have received enough information to have formed a perspective and then decided to act on it. But they value what they can learn from others, and they want as much unfiltered information as possible, so they tend to be excellent listeners. Excellent listening is not always intuitive for people, but it can be learned and mastered.
So in summary, here are the leadership traits asset management leaders have always needed but are often in short supply:

- A desire to lead
- A background in asset management
- Both a strategic and tactical orientation
- Competitive and a strong will to win
- Excellence at leading smart people who don’t like to be managed
- A high tolerance for ambiguity and acceptance that it’s okay not to know everything
- Finally, excellent communication skills. In particular, excellent skills in listening and asking insight-provoking questions.

The New Skills Required

If we think of the leadership traits and skills discussed above as the historical baseline of requirements for leaders in asset management firms, then the next step is to examine what traits and skills are needed in today’s business and investing climate. In the good old days, according to Bob Doll of Merrill Lynch Investment Managers, a lot of things would do—your leaders could be charismatic salespeople or extraordinary investors. But successful leaders today must have more than a narrow skill and experience set. Business today is more sophisticated and, in this post-scandal environment, the level of scrutiny is much greater, so the leaders of today must be correspondingly more sophisticated themselves.

The implications of this perspective are important. It could mean, for instance, that firms identify promising leadership talent and send those people to MBA programs or at least mini-MBA programs to help them develop the level of sophistication required as those people are promoted into key leadership roles. It may not be enough today to identify the great salespeople or investors and automatically promote them into leadership roles without first giving them the developmental experiences they need in order to do the job right.

Like others we spoke to, Deutsche Asset Management’s Bill Shiebler, CEO of the Americas, argues that today’s asset management leaders cannot be just good salespeople or investors. Rather, they must be broadly schooled in business and think like businesspeople. They have to be strong communicators who know

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6 Bob Doll, Ibid.
the industry well, are thoughtful, and can handle diversity. He also contends that part of that business orientation is being profit driven, which implies not only a focus on achieving high returns on investments but also managing costs—thinking of the firm and its operations as a business enterprise whose success depends to a great extent on its ability to achieve acceptable margins and returns on assets.

The game, in other words, is not merely to close sales or manage investments most effectively for investors, but also to manage the enterprise so that it maximizes profits and returns to shareholders. As we noted earlier, Bridget Macaskill said that there has always been very poor cost and expense control throughout the industry. Historically, it has been such a high-margin business that companies did not need to analyze their profitability or apply effective cost-control measures. During the downturn, these companies woke up and realized that they needed to pay attention to profitability models.

Bill Shiebler also argues that today’s asset management leaders must be sophisticated in their understanding of branding and marketing. Positioning the firm in the marketplace is increasingly important, particularly in the atmosphere of distrust created by the recent revelations around market timing and management-sanctioned late trading. Restoring confidence will require more than waiting for the storm clouds to dissipate. Leaders in individual firms face the twin tasks of ensuring that their operations have the high integrity investors expect and that investors trust in that integrity. Branding is the creation of institutional trust, and it is fundamentally important in asset management, where the gain or loss of trust can be measured in the movement of hundreds of millions of dollars into or out of funds and firms.

Bob Doll told us that with the increasing complexity of the business, the most difficult challenge for today’s leaders is execution. Leaders must be able to see the upside and downside of every decision. The significant decisions are always multifaceted, and there may be no right answer. With the upside may come some unavoidable downsides that have to be mitigated. And the most challenging aspect of execution is managing the people who actually execute the work. Getting, motivating, and retaining good people is becoming increasingly difficult in this era that McKinsey has dubbed “the war for talent.” Good people have many options today, and the best firms are scrambling to attract the best talent, reasoning that if they have the top ten percent of the talent in the marketplace, they

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7 Interview with Bill Shiebler, Spring 2004. Quotations used with permission.
have an unassailable advantage in execution—so long as they can retain that talent and put it to most effective use.

According to Doll, the key to managing good people is knowing how to balance your management influence—knowing when to herd them in and when to let them express their independence. We mentioned earlier that managing smart people who don't want to be managed is a key leadership trait. John Rogers, President and CEO of INVESCO Institutional, says that the best leaders form true partnerships throughout the company. They have the true capability to listen and understand others, to take them into confidence and work with them. They have an accurate sense of their own strengths and limitations and know how to balance an effective team around them. Perhaps most, they know that trust from the people they lead is earned, not given. Leaders are lifted up by the people below them because they have earned their respect and keep their trust.⁸

In conclusion, the more complex and sophisticated business environment today demands leaders who are themselves more sophisticated businesspeople. They must be broadly schooled in business and think like businesspeople. They must be profit driven, have a sound understanding of the cost and expense management part of managing a P&L, and they must understand branding and marketing, particularly in this post-scandal environment.

Managing execution is especially important today, not only to make the most efficient use of business resources but to ensure that their operations have the requisite integrity. In many ways, the most important part of managing execution is managing human capital. In today's war for talent, attracting, motivating, and retaining the best people is fundamentally important to the success of any enterprise, and asset management is no exception.

The finest asset management leaders of today and tomorrow know how to balance their management influence. They know when to push and when to pull; when to assert and when to listen; when to make bold, unilateral decisions and when to form partnerships or alliances and seek consensus. They also know when to lead and when to manage—and this is a topic worthy of further discussion.

⁸ Interview with John Rogers, 2004.
The Differences Between Management and Leadership

It has often been said that managers do things right and leaders do the right things. If a work group were assigned to clear a forest, the manager would ensure that the forest clearing was done properly; the leader would make sure it’s the right forest. By and large, managers must cope with complexity; leaders must cope with change. Managers get people to work to their capacity; leaders get them to exceed their capacity. If management is about planning, budgeting, organizing, controlling, staffing, and problem solving, then leadership is about setting direction, getting people aligned, and motivating and inspiring them.
Table 1 summarizes other key differences between management and leadership. These distinctions are important because, too often, people who think they are leading are really managing. Both management and leadership are important; firms could not function effectively for very long without both of them, but management is focused more on the present and leadership more on the future. Without the visionary, forward-seeking orientation of leadership, even well managed firms will eventually grind to a halt. Furthermore, without the overarching perspective of effective leadership, well-managed firms can become misguided and make decisions that are contrary to the best interests of their ultimate stakeholders—the investors whose money they are managing—as we’ve seen in the recent scandals.

Table 1: Leadership and Management

<table>
<thead>
<tr>
<th>A Good Manager</th>
<th>A Good Leader</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thinks inside the box</td>
<td>Thinks outside the box</td>
</tr>
<tr>
<td>Has both eyes on the bottom line</td>
<td>Has both eyes on the horizon</td>
</tr>
<tr>
<td>Exercises power</td>
<td>Shares power</td>
</tr>
<tr>
<td>Has a short-range view</td>
<td>Has a long-range perspective</td>
</tr>
<tr>
<td>Strives to clear the bar—achieve the goals</td>
<td>Strives to raise the bar—inspire higher levels of achievement</td>
</tr>
<tr>
<td>Use rewards and punishment to achieve results</td>
<td>Uses rewards and recognition to increase commitment</td>
</tr>
<tr>
<td>Learns from the past and focuses on the present; is most concerned with the day-to-day</td>
<td>Learns from the present and focuses on the future; is most concerned with the future</td>
</tr>
<tr>
<td>Enforces the standards</td>
<td>Raises the standards</td>
</tr>
<tr>
<td>Establishes an orderly environment</td>
<td>Builds a collaborative environment</td>
</tr>
<tr>
<td>Controls deviation from the norm</td>
<td>Encourages deviations from the norm</td>
</tr>
<tr>
<td>Develops and deploys resources</td>
<td>Develops leadership within the organization</td>
</tr>
<tr>
<td>Is most interested in efficiency</td>
<td>Is most interested in effectiveness</td>
</tr>
<tr>
<td>Administers</td>
<td>Innovates</td>
</tr>
<tr>
<td>Maintains</td>
<td>Develops</td>
</tr>
<tr>
<td>Focuses on systems and structure</td>
<td>Focuses on people</td>
</tr>
<tr>
<td>Relies on control</td>
<td>Inspires trust</td>
</tr>
<tr>
<td>Asks <em>how</em> and <em>when</em></td>
<td>Asks <em>what</em> and <em>why</em></td>
</tr>
</tbody>
</table>
The Difficult Transition to Leadership
If we examine a typical career development path in asset management—say, from analyst to chief investment officer—we see that there are some significant transitions along the way, and not everyone can successfully complete those transitions. Figure 1 shows the lower s-curve of leadership development—from analyst to portfolio manager.

This s-curve reflects the nature of learning. People typically acquire but do not master new skills and knowledge fairly rapidly (the flat tail of the curve). Then, through the difficult process of integrating those skills, the curve is steeper and learning is slower. Once the skills are mastered and the knowledge well integrated, the learning curve flattens again, and people are able to acquire newer, more complex skills and knowledge. At the top of this learning curve, people are typically functioning at a high level.

Figure 1: Leader Development: The Lower s-curve

In the lower s-curve of development, the best way to have impact is to have the right answers.

- Learn the craft
- Develop sector expertise
- Get good information
- Make accurate recommendations
- Focus is quantitative

Sustained performance is power

Portfolio Manager

- Make quick decisions with limited information
- Communicate confidence
- React quickly and calmly to good or bad news
- Influence without authority
- Focus is quantitative but ambiguous

Knowledge is power
In the transition from analyst to portfolio manager, people gradually evolve from a perspective that “knowledge is power” to one where “sustained performance is power.” In this s-curve, the best way to have impact is to have the right answers. Then, as portfolio managers become team leaders, they encounter a significant shift in leadership perspective, as shown in Figure 2, the upper s-curve.

**Figure 2: Leader Development: The Upper s-curve**

In the upper s-curve of development, the best way to have impact is to attract, develop, and inspire a talented, cohesive team that delights clients.

- Build talented teams
- Bring structure and discipline to the process
- Motivate exceptional performance
- Make the tough decisions
- Focus is on leading people

Delighted clients are power

Chief Investment Officer

- Provide vision, focus, and direction
- Create client confidence
- Build a talented organization
- Stimulate innovation
- Develop the leadership pipeline
- Focus is on leading organizations

Team Leader

A talented team is power

In the upper s-curve, the best way to have impact is to attract, develop, and inspire a talented, cohesive team that delights clients. For people who have heretofore been focusing on technical skills, investment knowledge, analysis, and portfolio management, the shift to emphasis on people and teams can be jarring. For team leaders, power comes from building talented teams, and at the upper end of this s-curve, power comes from delighting clients and other stakeholders. These shifts in focus and importance are complex and difficult for many people in asset management firms who might otherwise make good leaders—and, indeed, some opt out of leadership roles or perform poorly in them either because they are ill-suited to the more people-focused demands of leadership positions or they are simply not interested in leaving the relatively safe environment of portfolio management.
Figure 3 (Crossing the Gap) illustrates the difficult leap emerging leaders must make as they bridge the two s-curves. Rising to broader, more institutional leadership roles means leaving behind what attracted many young professionals to asset management in the first place. The financial rewards may be lower or less predictable and more subject to others’ performance than to one’s own performance. However, the psychic rewards are also different and may be less attractive. Individual brilliant performers are often most rewarded by their own track records and independent successes—the ones they can attribute solely to themselves. But the best leaders usually derive their psychic satisfaction from having led teams to stellar successes, and while this is highly rewarding to some people, it is not attractive to those who need individual triumphs and recognition for their accomplishments.

**Figure 3: The Two S-curves: Crossing the Gap**

The greatest development gap occurs between the two s-curves. It requires a fundamental mindset shift and means leaving behind what attracted talented people to the profession.

The leader mindset:
- People are power
- Maximize talent
- Build sustainable teams/organization
- Inspire people to outperform their capabilities
- Develop other leaders
- Make yourself obsolete

**The Implications for Asset Management Firms**

The world of asset management is changing, a change forced not only by the recent scandals, but by the evolving nature of business itself and of the competing choices available to investors. With increasing complexity and sophistication, leaders in asset management firms must be more businesslike and sophisticated themselves.
Traditionally, asset management leaders have been homegrown (for the most part) and have had the luxury of leading in a historically high-margin industry where profit orientation was not crucial (because the profits were always there) and where building talented teams was not difficult because people were motivated by the extrinsic rewards of the profession.

Times have changed, and now asset management firms need to pay far more attention to how they develop the leaders of tomorrow. Developing leaders from within is challenging because asset management firms have typically not had effective leadership development programs, certainly nothing like the sophisticated and relatively mature leadership pipelines in firms like McKinsey & Company and similar professional services firms or like General Electric and its “leadership factory.” To effectively develop leaders, asset management firms need to understand how evolving leaders transition through various roles in the leadership development process and successfully complete the shifts in mindset required to move from analysts, for example, to chief investment officers.

The key question is whether asset management firms are ready to adopt the GE model of leadership development. Following the recent scandals, there have been many calls to action and a number of leadership changes. However, cynics might argue that lawmakers and regulators like Eliot Spitzer will have their day in court but that the fervor will die down eventually and things will go back to the way they were. Of course, another wave of scandals might also push lawmakers over the edge and force even more stringent laws and regulations than the ones currently being proposed.

We believe that the industry is at a crossroads and that the smartest firms will find ways to build their leadership pipelines and attract, develop, and retain the top leadership talent in the industry. In this environment of heightened scrutiny, increasing competition, and less tolerance for wrongdoing, asset firms may not have a choice if they want to survive with their reputations and assets under management intact.