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Leadership Transitions:
Accelerating the Pace of Change

Since 2017 there have been several promotions of "Gen X" executives into CEO and important Division Executive roles, leapfrogging many of their baby-boomer generation peers at some of the largest asset managers in the world (such as Shundrawn Thomas – Northern Trust, Kristi Mitchem – Well Fargo, Tim Buckley – Vanguard, Salim Ramji – Blackrock).[1,2,3,4,5,6] We believe that these organizational management decisions are the result of shifting priorities in the governance of these firms at the Board level to promote executives who are willing to take more risk in leadership in response to a new reality of slower growth and changing client demands. These considerations are in addition to the clearly outstanding qualifications, capabilities, and track records of these recently promoted leaders.

It is typical for investment firms at the most senior levels to promote executives with roughly 5-7 years less experience than their predecessors and with track records of scale of management leadership (number of staff, size of P&L) closely resembling their predecessors. For many years this has been regarded as the most conservative, low risk method to insure a safe hand-off in these succession planning scenarios. In the recent cases cited above, the jump was 10 years or more. In the current environment, we believe that Boards are showing a willingness to take significantly greater risk in order to speed the pace of change, particularly as they consider CEO succession.

The groundwork for this accelerating pace of change has been well documented.[7,8,9] McKinsey cites the fact that US$5-10 trillion in AUM is in motion, moving from traditional core asset classes to index or specialty asset classes during the next 5-10 years, as well as a dramatic influx of innovative technology.[10, 11] BCG highlighted in a June 2017 study the decoupling of AUM and revenues and the need to address innovation in investment processes, client interactions, and expense management, all simultaneously.[12] These disruptive changes have highlighted the importance of a clean break with the past. The urgency of adapting new solutions has finally moved beyond long range strategy discussions and squarely into near term tactical planning focused on organizational management structures that can quickly impact business relevance with clients and competitors. Other industries have seen rapidly transforming landscapes with seemingly novel products and services quickly disrupting the *status quo* (e.g., the music industry with streaming subscriptions, or the transportation industry with Uber), so the pressure to respond is real.[13]

We believe that behind the governance shift backing this new generation of more innovative leaders, there is a recognition that management teams need to take more risk in seeking out creative business solutions to the challenges facing the industry. The speed of innovation and change necessary to meet these business challenges is furthering this governance reassessment. The skills necessary to guide this process go far beyond the sales training of distribution leaders, or the research based analytical skills of investment leaders, career paths that characterized the current generation of industry CEOs and C Suite executives.

This new generation of leaders is bringing considerable breadth of strategic planning insights, extensive knowledge of technology, in-depth expertise regarding asset owners and competitors, and a willingness to develop and promote new products (such as alternatives, solutions targeted structured investment products, and ETFs). These skills are well represented in the group of leaders cited as examples at the outset of our comments. The willingness to challenge convention in investment process methodologies, perhaps by incorporating more advanced technologies, or reassessing cultural norms is at the heart of this change.[14] In addition, creative new client engagement methods, moving toward value added end result solutions and away from trailing returns style based pitch books, are pervasive "best practice" characteristics. Creating a corporate culture of lean, "six sigma," continuous improvement in every element of business practice, but particularly in managing infrastructure costs, is another common theme we have observed.

The reticence concerning rapid change evidenced by the earlier generation of leaders is understandable. For nearly 30 years through the mid-2000s, the asset and wealth management business brought sophisticated and successful investment capabilities to the market that significantly benefited asset owning clients. This success in satisfying complex client demands led to outsized growth rates and margins, even within the innovative and fast growing financial services industry. However, the global monetary policy initiatives necessary to assist the recovery from the 2008-9 financial crisis brought a new type of dilemma to the investment business. Today's managers are still in the midst of grappling with these new realities, including slower growth rates, flatter yield curves, more volatile markets, increased transparency, and client expectations for greater accountability on long term solutions to complex financial problems, not just maximizing returns against a benchmark.

The recognition by investment firms that the Board governance process needs to adapt and accelerate the pace of change in response to client demands is a healthy acknowledgment of this new reality. The recent decisions within several very large firms to execute on this through new leadership is a harbinger of a wider shift in management succession planning that our experience with clients confirms is already in motion.

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Notes

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