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Why Asset Managers Appoint External CEO Successors

By Lisa Fu February 21, 2020

When replacing a CEO, financial industry firms face a big choice — elevate an insider who can draw on their knowledge of the business, or bring in an outsider with a fresh perspective.

This week, UBS surprised the market by choosing **ING** chief **Ralph Hamers** as its next CEO, upsetting expectations that an internal candidate would rise to the post. It was well known that current CEO **Sergio Ermotti** would eventually step down, but there was an expectation that the promotion would come from within, according to Morningstar equity analyst **Johann Scholtz**.

An asset manager will select an outsider as a successor if new skills or a new direction are desired at the firm. Other reasons a firm might hire externally include a desire to avoid conflicts with senior staff members or a failure to plan for succession in advance. “If you go for an outside candidate, it’s typically more somebody that is bringing a transformational attitude to the business,” Scholtz says. “When people find an internal candidate, you expect business as usual.”

Some firms have tapped an external candidate to lead them as they tried to pivot from prior regulatory or reputational issues. For example, Wells Fargo last year brought in **Charles Scharf** from Bank of New York **Mellon**, as the firm aimed to recover from a series of regulatory problems occurring in recent years. After hedge fund **Och-Ziff** and its founder were entangled in its Africa bribery scandal, the firm hired former Credit Suisse chief **Robert Shafir** to be its new CEO and rebranded to **Sculptor Capital Management**.

Despite selecting an outsider, UBS’ board consistently highlighted that it was happy with the strategic direction Sergio laid out, Scholtz adds. Thus, it is unlikely that Hamer was brought in to overhaul the asset manager’s current direction.

A manager might also search outside the company if internal candidates lack seniority, Scholtz says. Firms that have passed over senior leaders to promote more junior executives have had cultural clashes, he says. If a culture clash with existing senior executives was a concern, moving Hamer horizontally from another firm would solve the problem, he explains.

In a rapidly changing environment, finding an appropriate senior employee to appoint can be a challenge, says **George Wilbanks**, founding partner of executive recruitment firm Wilbanks Partners**.**

"What's happening is in leadership positions across the asset management business, there is a great big skills rotation underway," Wilbanks says.

The skills needed to run an asset management firm are shifting in favor of technology and quantitative capabilities, Wilbanks explains. So, while the next CEO may not need to be a coder or quant, they should be a sophisticated user and consumer of these tools. The outside world is changing faster than the industry expected, and it is not always possible to find someone internally with these skills at a senior level, he says. The skills that a manager thought it needed 10 years ago may have now changed.

Of course, when possible, Wilbanks believes asset managers should try to find a successor from within the firm. Selecting home-grown talent is cheaper, not only because of the cost of recruitment, but also because a firm is less likely to suffer the cost of disruption caused by bringing in an outsider.

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February 20, 2020

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Wilbanks recommends managers to think about succession sooner rather than later.

"Succession planning is a multi-year, expensive and time-consuming process," Wilbanks says. "You can't start this year and solve the problem next year."

Wilbanks recommends that asset management clients look out at least five years in advance to start training staff members and creating a pipeline. Retraining and reskilling takes three to seven years, he adds. A potential successor should not only have a certain level of seniority and experience, but they should be a lifetime learner who can pick up new skills quickly as the world changes, he says.

"Avoid the temptation to think the grass is greener on the outside," recommends **Matthew Bidwell**, an associate professor of management at **The Wharton School** who researches the effects of promotion.

While there was a period when investors liked to see companies go out to find the best talent, that trend has now flipped, Bidwell observes. The investors are an important stakeholder, and these days, they want to see less upheaval and less uncertainty.

In addition, promoting from within the firm can be more cost efficient, according to Bidwell. An internal hire costs less and can start right away without needing time to understand and adapt to the culture. However, there is risk to having a public horserace in the firm as those that lose are more likely to leave the firm, and if a potential successor leaves, it looks terrible, he adds.

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